Trane Technologies
Q1 2025 Earnings Conference Call
April 30, 2025 / 10:00 AM EST

Operator: Good morning. Welcome to the Trane Technologies Q1 2025 Earnings Conference Call. My name is Julianne and I will be your operator for the call. The call will begin in a few moments with speaker remarkets and the Q&A session. (Operator Instructions)

I will now turn the call over to Zac Nagle, Vice President of Investor Relations.

Zac Nagle: Thanks, Operator. Good morning. Thank you for joining us for Trane Technologies' First Quarter 2025 Earnings Conference Call. This call is being webcast on our website at tranetechnologies.com, where you'll find the accompanying presentation. We are also recording and archiving this call on our website.

Please go to Slide 2.

Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the safe harbor provisions of federal securities law. Please see our SEC filings for a description of some of the factors that may cause actual results to differ materially from anticipated results. This presentation also includes non-GAAP measures which are explained in the financial tables attached to our news release.

Joining me on today's call are David Regnery, Chair and CEO, and Christopher Kuehn, Executive Vice President and CFO.

With that, I'll turn the call over to Dave. Dave?

David Regnery: Thanks, Zac, and everyone, for joining today's call. Please turn to Slide 3. I'd like to begin with a few minutes on our purpose-driven strategy, which enables our differentiated financial results over time. At Trane Technologies, we continuously innovate for a sustainable world, setting the pace for our industry and driving significant customer demand.

Our solutions offer very attractive paybacks, helping customers reduce energy use, emissions and operating costs. These long-term partnerships not only fuel our growth but also make a positive impact on the world. Our leading innovation, proven business operating system and uplifting culture enable us to navigate dynamic environments, outperform the markets, and deliver robust free cash flow. This strong consistent performance positions us to deliver differentiated shareholder value well into the future.

Please turn to Slide 4. We delivered strong financial results in the first quarter, continuing our track record of industry-leading revenue and EPS growth. Our global team achieved 11% organic revenue growth. 130 basis points of adjusted EBITDA margin expansion and 26% adjusted EPS growth. Bookings were robust, up 4%, with a book-to-bill ratio of 113% for the enterprise and book-to-bill of 100% or more across all segments and businesses.

We added about $500 million to our backlog from year-end 2024 including approximately $400 million in our Americas Commercial HVAC business. Our Commercial HVAC and Services businesses have shown outstanding durability and resiliency compounding growth over multiple years. And our project pipelines continue to grow, highlighting sustained opportunities ahead.

Our direct sales strategy enables us to capture more than our fair share of these opportunities and consistently outgrow our end markets. Our Service business represents a third of our enterprise revenues with a high single-digit compound annual growth rate since 2019 and a low teens CAGR since the inception of Trane technologies.

We pride ourselves on strong execution and delivering for our customers and stakeholders. Despite a dynamic macroeconomic environment, we are confident in our ability to outperform. Our experienced global teams have effectively managed past challenges, consistently improving our business operating system to be more agile and resilient. This system includes advanced mechanisms for pricing, supply chain management and productivity to manage various inflationary scenarios.

We are well prepared to manage the modest cost inflation we expect while minimizing the impact on our customers and driving market growth. Looking forward, we're confident in our ability to deliver results towards the higher end of our full year revenue and EPS guidance ranges, which Chris will cover in more detail shortly.

Please turn to Slide 5. In our Americas segment, Commercial HVAC bookings set a new quarterly record, surpassing last year's high. Revenue growth was robust with mid-teens growth in equipment and low teens in services. Residential growth was also strong, with bookings up mid-teens and revenues up high teens. Transport refrigeration bookings were down low single digits and revenues were up mid-single digits, significantly outperforming end markets, which were down around 25%.

In our EMEA segment, Commercial HVAC bookings were very strong, up mid-teens. Revenue was up mid-single digits, in line with our expectations for the quarter. Transport bookings were up high single digits. Revenues were up mid-single digits, outperforming end markets, which were down mid-single digits.

In Asia Pacific, our team showed resilience with balanced results between China and the rest of Asia. In the rest of Asia, bookings and revenues were strong, up double digits and low 20s, respectively. In China, the market remains challenging, with bookings and revenues down low 30s and high 20s, respectively, against tough prior year comps of approximately plus 20% for both.

Now I'd like to turn the call over to Chris. Chris?

Christopher Kuehn: Thanks, Dave. Please turn to Slide 6. This slide highlights our strong first quarter performance. Organic revenues up 11%, adjusted EBITDA margins up 130 basis points and adjusted EPS up 26%. We delivered robust organic revenue growth in both equipment and services. Our high-performance flywheel, fueled by relentless innovation continues to drive top line growth, margin expansion and EPS growth.

Please turn to Slide 7. At the enterprise level, we delivered strong volume growth, positive price realization and productivity gains that offset inflation and high levels of business reinvestment. Our Americas segment delivered revenue growth across all businesses. Adjusted EBITDA margin expanding by 170 basis points, driven by volume growth, productivity and price realization.

In EMEA, revenues increased in each business, though adjusted EBITDA margin declined by 190 basis points due to high business reinvestment during the shoulder season. Results met our expectations and we're confident in strong margin performance for 2025. In Asia Pacific, despite a modest revenue decline, the team delivered 90 basis points of adjusted EBITDA margin expansion through strong productivity and cost management.

Now I'd like to turn the call back over to Dave. Dave?

David Regnery: Thanks, Chris. Please turn to Slide 8. Overall, our market outlook remains largely unchanged from our fourth quarter earnings call in January. Our team remains agile to drive outperformance in a dynamic macroeconomic environment.

In the Americas, we had an excellent start to the year across our businesses, providing strong momentum. Our outlook for Commercial HVAC remains unchanged, supported by strong bookings, revenues and backlog build in the first quarter. Our world-class direct sales force and leading innovation are powerful competitive advantages, particularly in large complex projects requiring bespoke applied solutions.

We have a proven track record of rapidly compounding growth here with 2-year stacked revenue growth of approximately 90%, 3-year stack revenue growth of approximately 130% and 4-year stack revenue growth of approximately 200% in the applied equipment space. For 2025, we're targeting total Americas Commercial HVAC 3-year stack revenue growth of approximately 50%, inclusive of both equipment and services. To meet this target, we expect to deliver revenue growth of high single digits to 10% in 2025, and we're on pace to meet or exceed this target.

In Residential, our outlook is also unchanged. We expect residential markets to return to a GDP plus framework in 2025. Our strong first quarter results suggest we did not see a dip in volume due to the 2024 prebuy as anticipated, while channel inventories are modestly elevated by an estimated $75 million to $100 million, we expect them to normalize in 2025, aligning with our GDP+ outlook.

For Transport, we anticipate a strong market rebound in 2026 and beyond. For 2025, ACT has revised their trailer outlook from down low single digits to down about 15%, while our internal model suggest a mid-20s trailer market decline. For prudency, we've incorporated the mid-20s decline into our guidance. Translating the trailer market forecast to the overall Transport market forecast, we anticipate the weighted average market to be down about 20% for the year, and we expect to outperform.

In EMEA, we see continued strength in Commercial HVAC in 2025 driven by strong execution in core markets and tailwinds from thermal management systems, services and key growth verticals. Expectations for EMEA transport markets are now expected to be down low single digits in 2025, and we expect to outperform. In Asia, our outlook for the year remains unchanged. We anticipate a flat market overall, balanced between challenging conditions in China and growth opportunities in the rest of Asia.

Now I'd like to turn the call back over to Chris. Chris?

Christopher Kuehn: Thanks, Dave. Please turn to Slide 9. Our 2025 guidance aligns with the market outlook Dave discussed, incorporating our value creation flywheel focused on innovation, market outgrowth, healthy leverage and strong free cash flow. At this early stage in the year, we are maintaining our prior guidance ranges of 7% to 8% organic revenue growth and $12.70 to $12.90 adjusted earnings per share and expect to perform towards the high end of these ranges. Given the U.S. dollar softening through the end of the first quarter, we anticipate negative 50 basis points of FX impact to revenues, an improvement from negative 100 basis points previously.

Recent bolt-on acquisitions have added approximately 50 basis points to our revenue growth from M&A bringing the total to about 100 basis points for the year, up from 50 basis points prior. The net EPS impact of FX and M&A remains unchanged at minus $0.20 for the year. We expect to manage and mitigate all tariff impacts that are now in place through proactive measures including pricing. We estimate the cost impact in 2025 to be approximately $250 million to $275 million.

We will take surgical pricing actions to offset tariff impact dollar for dollar, aiming to fully mitigate these costs while minimizing the impact on our customers. Net tariff costs are included in our EPS guidance for the year and are expected to have zero impact. Given the dynamic tariff environment, it's premature to build specific pricing into our revenue guidance at this stage. We will provide updates as more information becomes available.

We continue to target organic leverage of 25% or higher, consistent with our long-term goals and anticipate another year of 100% or greater free cash flow conversion in 2025. For the second quarter, we expect approximately 8% organic revenue growth and approximately $3.75 in adjusted EPS. We do not anticipate a material impact from tariffs that are now in place in the second quarter. For additional details related to our guidance, please refer to Slide 16.

Please turn to Slide 10. We remain committed to our balanced capital allocation strategy focused on deploying excess cash to maximize shareholder returns. First, we strengthened our core business through relentless reinvestment. Second, we maintain a strong balance sheet to ensure flexibility as markets evolve. Third, we expect to deploy 100% of excess cash over time. Our approach includes strategic M&A to enhance long-term returns and share repurchases when the stock trades below intrinsic value.

Please turn to Slide 11. In the first quarter, we deployed approximately $775 million through our balanced capital allocation strategy with $210 million to dividends, $15 million to M&A and $550 million to share repurchases. These figures exclude $260 million from M&A and $100 million from share repurchases made early in the quarter, which were included in our fiscal year 2024 capital deployment targets as discussed during our fourth quarter earnings call.

In February, our Board of Directors approved a dividend raise of 12% and that became effective with the first quarter payment. Since the launch of Trane Technologies, the dividend has grown by nearly 80%. We opportunistically accelerated share repurchases in the first quarter to capitalize on periods of acute share price dislocation. We have $5.6 billion remaining under repurchase authorizations, providing us with significant flexibility moving forward. Our M&A pipeline remains active, and we will continue to be disciplined in our approach.

Overall, our strong free cash flow, liquidity, balance sheet and substantial share repurchase authorization offer excellent capital allocation optionality as we move forward.

Now I'd like to turn the call back over to Dave. Dave?

David Regnery: Thanks, Chris. Please turn to Slide 13. We've covered transport in previous slides, so I'll keep this brief. The Americas transport refrigeration markets have been volatile, but the long-term outlook remains strong. For 2026 and 2027, ACT projects a strong rebound with over 20% growth each year. We're managing well through the downside. We continue to invest in innovation, and we are excited to add another significant growth driver to our enterprise portfolio in 2026 and beyond.

Please go to Slide 14. In summary, we are poised to achieve leading performance and deliver outstanding shareholder returns in 2025 and beyond. Our vibrant culture cutting-edge innovation, robust business operating system and proven track record, differentiate Trane Technologies in the market. I'm proud of our team's consistent growth highlighted by our strong results in the first quarter and over time. I firmly believe our best days are yet to come.

And now we'd be happy to take your questions.

Operator?

QUESTION & ANSWER:

Operator: (Operator Instructions) Our first question comes from Julian Mitchell from Barclays.

Julian Mitchell: Good morning. Maybe just wanted to start off with the Commercial HVAC market and I suppose the Americas in particular, you mentioned sort of a growing pipeline, but just wanted to understand if there's been any sort of shift in specific verticals that you've seen in recent months in terms of demand or orders? And also, I realize there's different definitions to sort of light commercial versus applied, but some of the light commercial data has not been so good the last six months. Just wondered sort of have you seen that? Are you concerned about that as it pertains to the applied read across after a lag. Any color on that, please?

David Regnery: Hi Julian, this is Dave. I'll start. Look, as far as Commercial HVAC goes in the Americas, it was another very strong quarter for us. In fact, order rates were an all-time record. We surpassed last year's record this quarter. It continues to be broad-based strength we're seeing which is very encouraging. Sure, we're very strong in data centers. We're very strong in healthcare, very strong in education, especially in higher ed, but it was broad-based. Majority of our verticals had positive growth in the quarter, which is always reassuring to us. The pipeline that I was referring to during our prepared remarks remains very, very strong, and that's what our sales teams are working on today, and we have visibility of that vis-à-vis the systems that we have.

So look, it's very positive in the Americas right now and we continue to be very, very robust on the team there. Also our services business to continue to do very well, which is, again, a great tailwind for our business.

Chris, I'll let you talk a little bit about unitary and applied.

Christopher Kuehn: Hey, good morning Julian. In the first quarter and also as we're thinking about guidance for the full year, applied was stronger than unitary, as expected. And given the broad base, the nature of how we think about the verticals that we support, different applications support different verticals with different strength and weakness there. But as we're thinking about the unitary markets for the year, we really don't expect much growth in those markets this year. Could the markets be flat to down? Yes. We've got that baked into our guidance, but we really see this year that applied markets will be stronger than unitary markets this year.

Julian Mitchell: That's very helpful. Then just my follow-up would be around the price actions to offset tariff gross headwinds. Maybe just kind of flesh those out a little bit. In the resi market, specifically, I think you're very clear that there was no pre-buy impact evident in Q1 despite a lot of the concerns out there the last year or so. How are you thinking about the price increases there sort of influencing volume demand in res?

Christopher Kuehn: Yes. I'll start with pricing in general, Julian. We started the year with our normal level of price increase that we go into any year with. Think of that in the December, January timeframe and really leveraging our business operating system running scenarios around the tariff environment.

I think about all the scenarios you run at the beginning of the year when you have 12 months in front of you, and I think we ran as many scenarios, if not more, in the April timeframe with eight months left in the year to go. So, I think we really try to triangulate multiple ways, multiple scenarios here, really pressure testing what we thought the guidance was and what we want it to be today, which we reiterated guidance, and we have a lot of confidence being at the high end of that guide.

So pricing, look, we're remaining nimble here in this environment. The first thing is how do we offset the cost of tariffs? We've identified an estimated $250 million to $275 million of tariff cost this year. It's a number we're working down. That's the first step, is reduce the impact to customers. But to the extent that there's a net tariff cost, call it $100 we're going to have to put $100 of price in place.

So, between February through April, we've implemented price increases and/or surcharges. Think of them as up to if it's a price increase, which gives us a lot of flexibility to be very surgical in how we're thinking about a price increase. Then a surcharge could be in place, but then also easily removed as we see changes possibly happening here in the tariff environment.

So that's how we're looking at it for this year. We've had a lot of experience in this space over the last several years. Think about 2022 with a very high inflationary environment with supply chain challenges. We had to deliver 10 points of price in 2022. We delivered about 5 points of price in 2023. So we're really leveraging the business operating system here and confident in our ability to really manage tariffs based on what we know today.

David Regnery: Yes. On resi, this is Dave, Julian. Look, the team performed very well in Q1. We're very encouraged with the start to the year. But I would remind everyone, it is just the first quarter, number one. On the prebuy question, yes, we did not see an impact in Q1.

I said in the fourth quarter call it's always hard to estimate what the pre-buy is because customers don't tell us or they don't have a box to check to say hey, this is a pre-buy offer. But we did not see it. But that said, we do have elevated inventory. We're estimating that to be right around the same amount that we had to prebuy or what we thought the prebuy was in the fourth quarter in that $75 million to $100 million.

So inventories are a bit higher than we would normally see this time. Could it be our IWD just stocking up for the season? Yes. We'll see how that plays out. But we do anticipate that burning through as the year progresses. And for the full year, we still have our resi business in the mid-single-digit range, which is back to our GDP plus guideline.

Operator: Our next question comes from Chris Snyder from Morgan Stanley.

Christopher Snyder: Thank you, I appreciate the question. I just wanted to follow up on the Americas Commercial HVAC demand. Obviously record orders in Q1 suggest things are still quite good. But I guess the question is, have customer conversations changed at all since the start of the year. In the channel, we're hearing more about some projects are moving slower just due to the uncertainty around cost. Are you feeling any of that in the business? I'm just wondering if there's a risk that maybe it could drive some elongation in converting the pipeline to orders.

David Regnery: Yes. It's a great question, Chris. We haven't seen that. I'm sure there's pockets of it with a particular customer, but we certainly haven't seen anything widespread to that level. I would tell you that in our applied systems, we have really, really strong paybacks for these projects.

So we're going to go in with a customer. We're going to lead with our payback. We're going to talk about the carbon footprint, they can also reduce. But we're always going to start with the payback. And because these are so attractive and because there's so much waste that's happening in buildings today with energy, there's just an immense opportunity in the future.

So look, we're very, very bullish on the future, specifically in our Commercial HVAC businesses really globally. The first quarter, off to a great start for the year. So we're very confident in our full year guidance.

Christopher Snyder: Thank you, I appreciate that. Then if we kind of look at Trane versus the market, you've outgrown as far back as we have data. I mean if you had to rank the reasons why Trane out grows, is that the efficiency of the equipment? Is it the breadth or the strength of the service offering? Is it the direct sales force and just the connectivity you have? Like how would you rank those three in terms of drivers of the company's outgrowth?

David Regnery: No. It wouldn't be fair for me to rank them but I would just tell you it's a system of things that makes us a great company. You hit on a few of them, certainly a direct sales force being close to your customer. I'd look at our operating system and it's how we operate every day within our company and how we share best practices on a global basis, how we innovate our products, the processes that we use. It's not about the dollars you invest in the innovation, it's the throughput you get. And all those are part of our business operating system.

If I had to rank one, Chris, what I would say differentiates us is our culture, and it's this culture around we can. Our purpose is to challenge what's possible and innovate for a sustainable world. We have a culture that I like to say we work towards and we don't shy away from problems because we know if we could solve the problems, that's where we're going to get the growth opportunities from. So it's a system of things that makes us a great company. I'm proud to be the CEO, and I'm certainly very proud of the results that we've been able to demonstrate now for a number of years and outperforming the end markets.

Operator: Our next question comes from Amit Mehrotra from UBS.

Amit Mehrotra: Good morning everyone. So I just wanted to follow up, if I could, on just underlying demand. I wanted to understand if the growth in revenue and orders are just more concentrated in specific verticals than before? I know you -- obviously the sales force can adapt to the demand environment, but wondering if any of the growth or what you're seeing is attributable to a more concentrated sample of end markets versus kind of more broad-based before or there's nothing there?

David Regnery: Yes, Amit, good question. I mean look, we track 14 different verticals in the -- at least in the Americas, and I'll tell you, it's pretty broad-based. The majority of our verticals had growth, which is a great sign. We're not overly concentrated in any one vertical. There are some verticals right now that are very strong. And we all know data centers are strong.

We're a leading provider in that vertical. We'll be a leading provider in that vertical well into the future. Healthcare was strong, which was a nice sign. Higher ed continues to be strong. So look, I could go through vertical by vertical, but I would tell you that it's broad-based and you would expect that with the breadth of our portfolio and with the technical aptitude of our account managers.

Amit Mehrotra: That's very helpful and clear. Then maybe one for Chris, if I could. If I look at the full year guidance, I guess the revenue guidance, it kind of implies maybe a more modest sequential uptick in revenue, 1H to 2H versus what's existed over the last couple of years. Obviously we're entering the base is very much higher, and we're entering a more normalized environment. But I was wondering is that the right way to think about just we're entering a more normalized growth environment starting the back half? Or maybe is there some conservatism in there that obviously is prudent given all the uncertainty you're seeing today?

Christopher Kuehn: Amit, I appreciate the question. Yes, we like providing guidance that we have the ability to meet or exceed on a full year basis or quarterly basis. You're right with that math in terms of what the second half implies in terms of revenue growth. But we're just one quarter into the year.

We were just starting the cooling season in the northern hemisphere, and we'll see how things translate through the balance of the second quarter. And we'll update everyone when we have our second quarter call. I think there is uncertainty out there in various markets, and we thought it was very prudent for us to maintain the guidance range that we provided in January, but also call that we're very confident in being at the high end of that range.

So let's give it another quarter, and we'll dial in what we see the second half of the year to be with any luck, there's a bit more certainty and less variability about what's happening in markets, but very confident on delivering our guidance as we've described for 2025.

Operator: Our next question comes from Scott Davis from Melius Research.

Scott Davis: I would echo the congratulations on these big numbers, but also just it looks like you cut your prepared remarks down pretty sizably in the quarter as well, which I think allows for more Q&A. It's helpful for all of us. So, thanks for that.

I guess I just want to ask kind of a follow-up on the tariff question. I hate to beat this dead horse. But if you guys have this massive backlog in applied, it's -- are your contracts flexible enough to allow surcharges or other mitigation? How does that kind of logistically work? Or do you have to go out one customer at a time and have that conversation?

Christopher Kuehn: Scott, it's Chris. There are contracts in the applied space where there are tariff protections and/or escalation features, right? It's not the majority, but I would say that it's on certain larger projects that is a construct of the contract. The key for us, though, is leveraging business operating system to reduce the dollar impact. We're driving that with suppliers today our partners today in terms of how you reduce the dollar impact, looking at source of supply. We're looking at trade routes as well to lessen the dollar impact here.

If we can get the dollar impact down, that means less of an impact to pricing that we have to pass through. We have a lot of confidence we can pass through price. But the starting point is get the cost down, and we're actively doing that today. So a lot of confidence we've got on delivering the full year guide growth in the applied space. But I would tell you that we're working in some oranges at this point.

David Regnery: Yes, Scott, this is Dave. First of all, thanks for you notice in the prepared remarks are down. It's a little bit of an internal debate we have. But the other thing -- the only point I would make, is this in region for region manufacturing strategy that we've had now for \ greater than a decade and it is a competitive advantage for us. And because we have the majority of our supply chain that follows that, you're seeing us kind of working through tariff problems in a different way.

But as Chris said, look, we're first going to try to mitigate it. If we can't mitigate it, we'll go dollar for dollar on the pricing. I think it's also very important to note that we're not going to make tariffs a profit center. We're not going to do that to customers. We think that's a very bad long-term decision. But we're going to do everything we can to try to mitigate it first.

Scott Davis: Yes. That makes sense. Dave, changing topics a little bit. China, it's not a surprise. I mean sequentially, it's actually a little bit better on overall. But how has the market responded? I mean you guys have made a pretty strong move there and not taking risky projects and stuff. But how has the market responded? Have others come in and been rational? Or have folks come in and kind of fill that white space with a rational behavior?

David Regnery: Yes. I mean look, we're in our third quarter now. The team is sequentially improving. Some of it's an education process that the team is going through to educate our customers as to the why. And as we do that, they're getting more comfortable with it.

So look, China is going to continue to improve improve into the future. I can't say that about the market. Challenging right now. We'll see how that plays out. Look, we have a very strong team in Asia and specifically in China. I have a lot of confidence in them. If you go back and over the last four years, I think you can see that our team in China has really been able to outperform the market. So a lot of faith in them, and this might take a couple more quarters to work through, but I have a lot of confidence in them. I do believe it's the right long-term strategy.

Operator: Our next question comes from Joe Ritchie from Goldman Sachs.

Joseph Ritchie: Can we just kind of chat a little bit about the resi strength this quarter? I'm just -- I'm curious you're not seeing any prebuy. It seems like the transition to 454B has already started and is going well. I'm just wondering, like is there a way to parse out like how much of the -- either the organic growth or the bookings growth that you saw this quarter was already 454B product versus the 410A that you're holding in inventory?

David Regnery: Yes. Look, I can tell you what we sold. I don't know if the sell-through to the IWD we don't get in that level of detail. But what we sold, we sold probably maybe close to 80% was 454B. And look, the team executed very well. It's difficult for me to say we didn't see a prebuy. Maybe we did see a pre-buy, maybe it's still in the channel because we know the channel is a little bit elevated versus what we would normally see. But again we've taken that burn down that will occur as we get through peak into our guidance, which, again just another way that we stress tested our guidance for the year and gives us a lot of confidence that we'll be at the full year, at the high end of the EPS range.

Christopher Kuehn: Yes, Joe, this is Chris. We're kind of reaffirming, we think residential is in that mid-single-digit growth range for the full year. And given the start of the year in Q1, it means that the average growth between Q2 and Q4 needs to really be up low single digits. So we'll see how the year plays out, but we think we've de-risked that here in the guidance, and let's see how the year plays out, we're prepared.

Joseph Ritchie: Yes. I mean look, that's a tilt your dealers are already taking on 454B products. So that's super helpful, and that was the vast majority of the improvement this quarter. I guess the follow-on question, I know you talked a little bit about trying to offset the tariffs with cost actions. If you kind of like look at the next three quarters, I guess the impact of your tariffs would be like roughly, I don't know like one to 1.5 to two points of price.

Can you maybe just tell us a little bit about like the -- just like price elasticity right now in the market because you're going through this refrigerant transition, there's additional pricing that's coming through there. Are you hearing any pushback from your dealers or from customers on pricing at this point?

Christopher Kuehn: Joe, it's Chris. I'll start. I mean the pricing actions we're taking are very surgical. It's not a broad-based, everything up x percentage point. It really is up to amount, and we're looking at it by product line. But the starting point for us really is getting the cost down, that $250 million to $275 million is an estimate. I know where Dave is driving and where our operations team is driving is to get that number down and working closely with our customers on signaling where we need to put a price increase in place.

You're right. If tariffs, if the $250 million to $275 million cost really held through the year, it would be about one point to 1.5 points of revenue growth. We don't have that in our guidance right now. We thought it was prudent not to put it in the guidance because we don't know where the final pricing action will be, but we're confident we'll have the ability to offset that on the elasticity. It's really working closely with our customers to explain where we're trying to offset the cost and what the net cost would be. So we haven't seen that impact here in April so far.

Operator: Our next question comes from Andy Kaplowitz from Citigroup.

Andrew Kaplowitz: Just want to talk about European margins for a second. Obviously you talked about a significant reinvestment and I'm sure margins will bounce back. But maybe you could just talk about what you're doing there. Obviously you've sustained strong growth in the region for a while much better than sort of market growth. So just where are you in sort of the investment cycle? And maybe just talk about that Q1 margin if it just bounces back pretty quickly here.

David Regnery: Yes. Hi Andy, hopefully as well with you. But look, at the end of the day it is really about continuing investments in Europe, right? And we're doing it in our new products. We're doing it in our channel. And it's just really the timing of those investments first, as Chris said in our prepared remarks, the shoulder season.

I'm not concerned. That's a great team there that continues to operate at a very high level. What I am excited about in Europe is the order rates. If you look at the order rate for Commercial HVAC, it's up in the mid-teens there, which is really reassuring that the investments that we're working on and the new products that we're introducing into the marketplace are meeting our customers' expectations. So great team, great execution. We'll work through the margins and the investments we're making, but we're always thinking long term, not just in a particular quarter.

Christopher Kuehn: Yes. And Andy, I'll add on. We've done a few bolt-on acquisitions in EMEA as well in the channel space. Think about reported leverage versus organic leverage, it's probably about a 5-point impact, negative impact to reported leverage, organic leverage will be stronger. So we have a lot of confidence in the full year, where we've got some integration costs on some of those acquisitions in EMEA. But that would be the main driver between reported versus organic leverage is really the M&A piece.

Andrew Kaplowitz: Got it. Very helpful. Then as you guys know back in the day TK being pretty weak would hurt you more than it is. I know you sort of put in the guidance, you'll continue to outperform. I just want to understand exactly sort of what you're seeing or what's in the guidance? I think you said something like down about 20% or so. But maybe you can sort of clarify that. Just TK just not that large as a percentage of the business now and so you don't get the impact. Where are you outperforming in TK versus the ACT numbers?

David Regnery: Let me start. Look, yes, ACT continues to drop their numbers, so they're down 15%. Our internal models say we'll be down a little bit higher in the trailer side of that, even close to like 20%. If you take that, you do a weighted average for the market, we're seeing the markets in the Americas being down roughly 20%.

We think we're going to outperform. We've continued to invest in this business through this 3-year down cycle. We have some really great products and some of them are in the pipeline, some that have been introduced, but we're going to continue to outperform. In EMEA, it's a little bit different model there or a little bit different situation. The markets are projected to be down low single digits, and we've been performing very well there with the innovations as well.

So look, TK right now if you assume that the markets are -- the trailer market is going to go down to 28%, which is where we're at, that would be the lowest level in that business in like 15 years. And so we think that's the trough, but we also think that it will bounce back. When it bounces back, we're going to be there because we have a lot of great new products to show our customers. I ran that business early in my career, Andy. When it comes back, it's going to come back strong. We're looking forward to 2026.

Christopher Kuehn: Andy, let me clarify one comment I made on leverage. For the enterprise, it is about one point of M&A for the full year. It's around 4.5 points of leverage negative impact between reported and organic. If you're looking at the EMEA segment, think of it as it's probably around five points of impact for the EMEA segment with about 20 points impact on leverage.

So my comments were maybe a little bit unclear around EMEA versus enterprise, but really good acquisitions. We like making sure that we've got direct touch with customers, and that's kind of the impact you just want to clarify that.

Operator: Our next question comes from Steve Tusa from JPMorgan.

Stephen Tusa: Congrats on continued execution here. Just on the resi front, any difference between the company-owned and the independent distribution sales in the quarter?

Christopher Kuehn: Steve, it's Chris. Yes. I think IWDs are a little bit stronger on the revenue side than the company owned.

David Regnery: Certainly, the sell-in was stronger. Sell-through was a bit stronger.

Christopher Kuehn: Yes.

Stephen Tusa: Okay. Then on this backlog, do you guys expect -- is the pipeline strong enough so that as you kind of move through the year that you'll be back to being positive on a year-over-year basis when it comes to backlog? I understand that most of that is the Commercial HVAC side.

David Regnery: Yes. I mean I'll go back to what I said in the fourth quarter, we'll have an elevated pipeline all year I won't dial in the exact amount. There's too much lumpiness that occurs. But we're very, very happy with the build we saw in the first quarter, about $400 million in our Commercial HVAC business in the Americas, about $500 million for the enterprise. Every region had a book-to-bill that was over 1, which is encouraging. So look, the backlog will be elevated really throughout the entire year.

Stephen Tusa: Okay. Then sorry, just last one, just on tariffs. So you're not including the price, I guess the $250 million or whatever it is of exposure, you're going to kind of like guide to that stuff when -- like when will you incorporate that in guidance? What's the trigger for that. You're obviously not -- and I assume you're not including the $250 million today obviously you're going to kind of like feather in both the price and the tariffs kind of as you get more information on how the markets are developing? Or what's kind of the trigger for that?

Christopher Kuehn: Yes, Steve, that's fair. If we can see things settle down in terms of clarity, then we feel better about adjusting the revenue guidance for what we think the net price impact needs to be on tariffs. So yes, it is not in the guide today the 7% to 8% revenue growth, which we're confident we're at the higher end of that at the 8% does not include the impact of tariff pricing today.

So let's see where it plays out. Again we're focused on getting that cost down and then we'll price accordingly to offset it dollar for dollar. But the hope would be we could do that in July when we have our second quarter earnings call. But we'll see if we have more clarity at that time.

Stephen Tusa: But sorry, you're embedding the cost without the price today?

Christopher Kuehn: Yes. We are confident on the adjusted earnings per share line that we will cover the cost of tariffs.

Stephen Tusa: Without price, okay.

Christopher Kuehn: Well it could be price. It could be a combination of lowering the $250 million to $275 million because of actions we're working with suppliers and trade routes. It could also be with surgical pricing. We're just not dialing in a different number on revenue growth, which if it is $250 million to $275 million of ultimate tariff costs, that would add about one point to 1.5 points of revenue. But we're not going to dial that in today because we really want to measure twice and cut once with getting better visibility on what the tariff landscape will be.

Stephen Tusa: Right. But would that be upside the price? Sorry, I just want to make sure I had the offsets. Would that be upside to the guidance from price? Or would that be just another mechanism you used to offset the cost?

Christopher Kuehn: Technically, it would be an upside to price, right? We're one to 1.5 points of price in the guidance for the year. I think they were very solid at that number.

Christopher Kuehn: But it would be upside to price to the extent that we have to price surgically for tariffs and no change in EPS. We've got that covered in EPS.

Operator: Our next question comes from Jeff Sprague from Vertical Research.

Jeffrey Sprague: A couple for me. Just first on Mexico. You guys have lower exposure down there than your peers generally perhaps everybody's USMCA compliant. But my question is, do you see any fundamental sourcing advantage from Mexico versus your competitors?

David Regnery: Yes. We have one plant in Mexico. I can't talk to what the competitors have. We have about 20 plants in the United States. About 80%, 85% of what we're shipping from Mexico to our one plant in Mexico to the United States is USMCA compliant. So I think we're in good shape there.

Jeffrey Sprague: But not using tariffs as a profit center, as you said, you wouldn't be looking for excess price out of Mexico if you didn't need it in your own operations.

David Regnery: That's correct. We're very clear with our teams to that. We're just going to -- if we have a tariff cost, it's going to be dollar for dollar, we have to offset with price. We're not trying to have this be opportune. Again we think that's a very bad long-term strategy. We want to make sure our customers know that we're doing everything we can to make sure they're getting the most economic value possible for the products and services that we offer.

Jeffrey Sprague: Thanks, Dave, I was wondering if you could maybe put your macro hat on a little bit for us. You look at these TK and transport outlooks, right? And as Andy noted, it's manageable in the current construct. But that also looks like kind of a macroeconomic recession signal. It's been a long time since we had a normal recession, right? 2020 was so quick and different. But maybe you could just talk about your contingency planning if things do get a lot more difficult here, what levers you'd be pulling? And are you legitimately concerned we might be looking at something much more difficult from an economic standpoint?

David Regnery: I'll start with, we're not projecting any kind of a recession, but I would tell you that part of our business operating system and is the part that's always been there is really our robust scenario planning. So we start every year with what are the different scenarios that we're going to go through. We identified at a very detailed level. We look for different triggers that would say we should take different actions.

So it's very, very specific and it's business by business. So we're not trying to take averages on averages here. It's very, very specific within a business, within a region and the teams do a great job there. That's something that Chris and I look at on a quarterly basis, and we call it our trigger report to make sure that we don't have or we make sure we have more greens than reds.

And look, we're not forecasting a recession right now but I would tell you that if we did see a downturn, part of the scenario planning is you have a plan, which is you never want to go into a crisis and not have a plan because that's when people start taking hard rights and hard lefts and they make bad decisions. You see that from Trane Technologies because we would have a plan based on whatever scenario happens and that could be on the upside or it could be on the downside.

The Thermo King business, look, I've been in that business for a long time. It's been 15 years since we had 28,000 trailer market in North America. Look, there's lots of analysis. But one of the things we look at is what's just the replacement market in the TK Americas. That would be like 35,000.

So look, capacity is coming out, these units are going to cost more to run. Over time this market is going to come back and it's going to come back quickly. The key is make sure that you continue to invest in the business even though you may be hearing a lot of bad news on the street. That's certainly our strategy at Trane technologies, and it's been our strategy for a while.

Operator: Our next question comes from Nigel Coe from Wolfe Research.

Nigel Coe: Great quarter and great color as well so far. So I thought I understood the 225. It's neutral to the framework, it gets offset by price or other mitigant actions there's no upside from pricing. Just want to make sure that's clear. If I'm not, please correct me. But I want to go back to the resi outperformance because the high teens is quite stunning. I think you said 80% A2L shipments through the quarter. So I'm guessing right now you should be running close to 100%

A2L. Your competitors seem to be struggling more with this transition. So I'm wondering if there's any share gains that you're seeing out there? And if you think those share gains might be sticky through the year.

David Regnery: Yes. Look, as far as resi goes, it's the first quarter, don't look at a quarter in residential for market share. There's different -- we serve the market in different ways. I'm talking about some of our competitors. So look, it's a long game here. You have to look at share over an extended period of time. That said, 100% of what we're shipping right now is 454B. Obviously we're only manufacturing the 454B right now unless it's at a component level, but again that would be more on the repair side.

As far as the performance in the first quarter, yes, it was strong. I'm very happy. I'm proud of what that team has been able to accomplish. It's a great start to the year. But again it's the first quarter. We'll see how the rest of the year plays out. As Chris said, we think we're going to be at mid-single digits for the year, and that implies that the back half of the year is going to be at the low single-digit rate based on the high performance that we had in the first quarter.

Nigel Coe: Understood. No. That's clear. Then going back to tariffs and really beating this dead horse one more time. But the $250 million, I'm guessing most of that would be imports from China. Again correct me if I'm wrong. I'm just curious, the reason I'm asking is if we do see a dial back in the tariff rates, which I think we're all assuming at some point, just trying to understand sensitivity to that. Then I'm wondering any color on sort of sourcing of components, motors, et cetera, versus finished product? Any help that would be useful too.

Christopher Kuehn: Nigel, it's Chris. I'll start. Yes, China would be the largest exposure to us with that 145% tariff that we've got included in the estimated tariff costs for 2025 of the $250 million to $275 million. As Dave articulated, Mexico, Canada, it's a really small impact to us. The majority, close to 85%, 90% is USMCA compliant. So it's a smaller part.

Then, of course we've got several countries with a 10% baseline tariff. So all of that is kind of factored in with what we know today in the $250 million to $275 million. When I think about Tier one commodities, right? Maybe we're a little bit more advantageous here. I mean 100% of our steel and copper is being sourced from the U.S. Over 90% of our aluminum is sourced from the U.S. So we love those suppliers. We have great relationships with them. And at the same time maybe our exposure there to other markets is maybe less than average. So we've got that factored into the guide as well.

David Regnery: On complete units, very small, is coming out of China. There is some in our value products that serves the residential space. However I would tell you that we also have value products or value brands that we manufacture here in the U.S. So we think that could be actually an advantage because we believe that there is a lot of that value portion of the resi market that's being served not necessarily by Trane Technologies, but others with product that's coming out of China and considering we manufacture the majority of what we sell there here in the United States, that could be an advantage for us. But stay tuned to that. We'll see how everything shakes out. Obviously nobody is bringing complete units from China right now if they're paying 145% tarriff.

Operator: Our next question comes from Deane Dray from RBC Capital Markets.

Deane Dray: I just want to circle back on just the approach on tariff and pricing. I love the concept you're not making it a profit center. But just the math on offsetting dollar for dollar will result in a margin hit, and that's something you've kind of -- you're at peace with.

Christopher Kuehn: I mean we started the year, Deane. This is Chris, with the thought that we would be able to plan to defend margin percent if tariffs were in place. I think what we've seen is a much broader impact and a much larger impact on a percentage basis. So wanting to make sure we're working with customers and to Dave's point, not making it a profit center, now we're going to make sure we can offset on a dollar-for-dollar basis. On that piece alone, yes, it may be an impact on margins, but we have other ways to grow margins here as well.

Deane Dray: Then second topic, you commented continued strength in the data center vertical. Any specifics there that you can share? And talk about your ongoing interest in liquid cooling?

David Regnery: Look, Deane, we continue to be strong in that vertical. We've always been strong there. We're always looking at how do you keep pushing innovation and whether it be in liquid cooling or whether it be in how do you get the COP coefficient of performance of these units up, that's what we're focused on now. We're working very closely with many of the hyperscalers, and we're having great success. The point I'm always trying to make is that, look, we're strong in data centers. But we're very strong in all verticals, and you would expect that with our broad portfolio.

Operator: Our next question comes from Tommy Moll from Stephens.

Thomas Moll: Dave, I wanted to ask specifically on your Commercial HVAC conversations. I'm thinking upper funnel here. To what extent are tariffs driving those conversations? Just generally, even in terms of uncertainty around what lies ahead generally leads to, shall we say delayed decision-making less confidence across your customer base. Are those kinds of anecdotes starting to percolate yet?

David Regnery: Yes. I mean we haven't seen it, Tommy. I mean I know that would be the assumption that everyone would be making. But to be honest, we haven't seen. I'm sure the conversations are occurring, but it certainly hasn't bubbled up to my level or the team hasn't brought it up as a major. So remember, most applied projects, especially the ones that are more complex where you would see Trane Technology really having a competitive advantage, those are longer cycle projects. So there's a lot of influencers there, not just what the cost potentially could be of a tariff that could add a point or something to the cost base.

Thomas Moll: And maybe just to end on a strategic point here. If we zoom out a little bit from the tariff conversation and beyond what is or isn't in place, today a month from now. It does appear that we're headed for an increasingly protectionist marketplace. I'm just curious, strategically, how does that evolve your thinking in terms of market share opportunities or threats, supply chain decision-making? How you allocate organic or inorganic investment? What's on your mind here?

David Regnery: Yes. I think Tommy, we're going to remain nimble. I think that an in-region, for-region strategy, not just only from a manufacturing standpoint, but how our leadership teams are set up is going to play to our competitive advantage.

Operator: Our last question today will come from Noah Kaye from Oppenheimer.

Noah Kaye: Dave, you said earlier, you really lead with payback, right, on these projects in Applied. You've talked in the past about retrofit being anywhere from 65% to 70% of the mix in applied. As you kind of look at both the orders this quarter and the pipeline, I mean new construction is growing, but it's somewhat modest. Does the mix of bookings kind of continue to shift towards retrofit in your view?

David Regnery: Yes. I don't have that level of detail, but it certainly would be a great assumption to make.

Operator: We have no further questions. I'd like to turn the call back over to Zac Nagle for closing remarks.

Zac Nagle: Thanks, Operator. I'd like to thank everyone for joining today's call. As always, we'll be available for questions in the coming days and weeks. We look forward to seeing many of you on the road in the upcoming months. Thank you very much.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.