

Trane Technologies
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Tim Wojs:

Great. Good morning, everybody. I'm Tim Wojs. I cover building products here at Baird, and we're delighted to have Trane Technologies join us at our Global Industrial Conference this year. Trane Technologies is one of the leading HVAC manufacturers globally. They have strong market positions in commercial HVAC equipment and service, residential HVAC and then refrigerated transportation.

From the company, we have EVP and CFO, Chris Kuehn. We have Donny Simmons, who is the Group President of the Americas business; and then Pat, who's the Director of IR, is up here in the front. So I'm going to kind of flip it over to Chris and just kind of maybe give everybody a quick state of the union on Trane, and then we'll get into more specific questions. So with that, I'll turn the floor to you.

Chris Kuehn:

Tim, thanks. Donny and I are very happy to be here, Pat as well, and being on a hopefully less snowy day here in Chicago than what the city experienced a couple of days ago. Look, we're happy to report. It's going to be another very strong year for Trane Technologies in 2025. We're guiding to 6% organic revenue growth, 7% reported growth and EPS growth in the range of 15% to 16% with very strong free cash flow conversion again. So we're very happy to be in another very strong year, and we're already putting the plans in together for 2026.

If Dave Regnery were here, our CEO, he would say that, gosh, we have more opportunities in front of us today than we did even five years ago when Trane Technologies was launched. So with that, we're happy to be here and talk more about what we're seeing in the landscapes in the business and what we're seeing out into the future.

Tim Wojs:

Great. You can raise your hand if you have questions or you can e-mail session2@rwbaird.com to hit this iPad up here. But I guess as you think about 2026, I mean, it's not like you've given guidance or anything, but just kind of thinking about the puts and takes as you look into next year. You've had some really strong bookings in commercial HVAC. As those convert, it seems like you have visibility to pretty strong growth there, maybe double digits next year. Residential, Thermo King, both kind of cyclically kind of pressured this year, but at some point, those will recover. So, I guess, how are you thinking about growth next year and the puts and takes to that? And then anything on the margin side that you'd call out relative to that kind of 25% plus organic framework that you've always kind of talked about delivered on?

Chris Kuehn:

Sure. Well, why don't Donny, why don't you start and give the landscape of how you're seeing things at the end of the third quarter for the Americas businesses and then how we're thinking about the framework for next year?

Donny Simmons:

Yes. I think just like we talked about in our third quarter earnings, we have a very robust backlog going into the year, primarily – thinking about that backlog is 90% commercial HVAC. So we certainly expect strength in commercial HVAC next year. On the residential side, a very challenging market this year. We talked about the third and fourth quarter being down 20%. What I will say as we go into next year, we haven't given guidance around next year, is that you could expect the first half of the year to be challenging from a year-over-year perspective, in particular, the first quarter. I mean we had high teens revenue growth in residential in the first quarter of last year. So we can expect that to be a factor.

And as we get into through the fourth quarter and into the first quarter, we'll talk about guidance and how we expect that to play out next year. On the Thermo King side, very much a different scenario in aggregate. I mean, the Thermo King markets have been challenged. We're in what we call a year four of an 18-month downturn, very challenging. Certainly, we expect that to change.

And historically, if you look, the market size today is at a 15-year low. I mean it's a significant downturn. As we go into next year, again, the first half will be more challenged as compared to the second half. And right now, all predictions are as of the second half, we should start to see growth in that marketplace, and we'll factor that in as well as we give guidance into next year.

Chris Kuehn:

Yes. I mean the ending backlog at the end of the third quarter was \$7.2 billion, and the vast majority of that is commercial HVAC. We said over 90%. And of that, the vast majority is applied systems, and it covers the 14 verticals we track in the Americas as well as globally. Think about that backlog from the start of the year, okay, it's up about 7%, but it's up about \$450 million from the start of 2025. But it's really up \$800 million from commercial HVAC, and it's down a couple of hundred million dollars when you look at the transport business and the residential business. So the complexity or the comp – the mix of the backlog is just continuing to inflect up for commercial HVAC and applied systems.

So it gives us a lot of visibility into next year in terms of what customers want in their deliveries for applied solutions. We need to see how unitary plays out. We need a few more months to see how that market plays out for next year. So that's another piece of our commercial HVAC business. And then we have an outstanding service business that represents about a third of the company revenues that – those service contracts are not in the backlog, but we've grown that

business low teens CAGR the last four years and on low double-digit growth so far this year, and it's going to underpin the growth into next year and for many years to go into the future.

Tim Wojs:

Okay. I guess when you think about commercial HVAC, just a lot of the data you see that's published, I mean, data centers is kind of the thing that's growing and everything else is kind of muddling along or kind of plus or minus. I mean you talk – and you and Dave talk about tracking kind of 14 different verticals internally. How is each one of those performing? Because I think there's a perception out there that it's just all data center growth. I think you guys pushed back against that, but I'm just kind of curious how you would kind of characterize it?

Chris Kuehn:

We intentionally do.

Donny Simmons:

Yeah. I mean we do push back on that because we serve all 14 verticals, and we're very well diversified. We're not heavily weighted to anyone. And so we do see growth beyond data centers, and we see growth in some pockets in office. If you just think about Class A office space, we're seeing growth there. And think about that in terms of upgrading Class B to Class A to make that more attractive to pull in tenants. So we see growth there.

We see growth in higher education. We see growth in healthcare. We see growth to some extent in government as well. Where the markets are challenged and where we've seen challenging markets this year, retail has been a challenging market this year. Life sciences has been a challenging market this year. And that's – but honestly, like if you look forward and look through our pipeline going forward, we see nice prospective growth in all the 14 verticals for the most part.

Tim Wojs:

Okay. I guess when – if you step back, just I mean your commercial HVAC business has basically doubled since COVID. There is obviously some price in there, but I think you've picked up a significant amount of market share over the last five years. So could you just talk about why Trane is kind of winning in the market and why what you've built around products and distribution and service is kind of hard to replicate?

Donny Simmons:

Sure. look, it's a system of things, and we talk about – it's hard to replicate, and we're very proud of what we have and it starts with our people. It starts with the innovation that we have for our customers, and that's a key driver for us is the innovation. We want to make sure that we're

continuously innovating the next generation of technology for our customers. It also has a lot to do with our channel strategy.

We're – we own our channel globally. That's very different than anybody else, and it gives us an advantage. And that advantage plays out in different ways. You can have an owner, a customer that's based in Seattle. You can have -- or in, say, South Korea; you can have an engineer that's based in Seattle and a mechanical contractor that's based in Dallas, Texas. And we have relationships personally with each one of those elements. That gives us an advantage to have that relationship with those customers at every level because it is a system of things.

And then our application expertise when we work with our customers around what problems they're trying to solve and the fact that we have an engineered sales force. Our sales force are degreed engineers that they're helping our customers solve problems day in and day out. And then you couple that with our service capability. Our customers care dearly about service.

Our service technicians typically have some of the best relationships with our customers. Our customers value that capability. We've got over 6,000 applied technicians. And I say applied, I mean, applied equipment technicians globally, over 4,500 here in the Americas. We're able to make sure that our customers are taking care of at any point in time. That's a very important factor in terms of how we compete in the marketplace.

Chris Kuehn:

Yes. To be fair, not all service technicians are the same. And ours are, to Donny's point, focused on applied systems, commissioning through servicing and maintenance. And one thing we're certainly hearing more and more from customers, especially on the data center side, is the capabilities not only on the manufacturing and the ability to deliver the product, but what's your commissioning capability? Do you have the workforce to be there on site to commission the product at the time in which they want?

Obviously, those assets want to be monetized as quickly as possible, so they're not looking for any holdups. And some of the real investments we made because you talked about 25% or better incrementals, we like having that framework because it allows us the optionality to keep driving more investment into the business with a governor of delivering at least 25% or better incrementals each year. But one of those investments we put in was into the service business, into a technology training center. Maybe you want to spend a minute, Donny, talking about that because it's a differentiator for Trane Technologies.

Donny Simmons:

Yes, I would love to. So we have two training centers in North America. One is in La Crosse, Wisconsin, and we just opened a second one. It's world-class, I mean absolutely world-class training facility in Davidson, North Carolina. And we send all of our technicians through these training centers. Training is extremely important to technicians. They want to make sure that

they understand the state-of-the-art equipment, that they understand how to service it. And they want to make sure that they capable of doing so.

So we send them to each one of those training facilities. All of our technicians go to training twice a year. So think of that as us building our capacity from a training standpoint.

And we also invest in tools for our technicians to make them more productive so that when they're asked to go to a job site, they understand exactly what's going on at the job site, they are able to spend less time typing up in a computer exactly what's going on and more time actually solving the problem for the customers. And so their applied time becomes much more valuable from that perspective.

Tim Wojs:

I guess, on the service side, like you say you're growing low teens, double digits. You've always prioritized strong attach rates. I guess where are you seeing kind of the most kind of incremental traction on the service side today? And how does technology – probably have a few more questions on this, but technology change kind of your ability to service relative to other companies that could maybe service your equipment?

Chris Kuehn:

Sure, I'll start. We're always investing in the service business. It starts with we're always hiring great service technicians. Donny has talked about the investments we made around the training aspects and even apprenticeship programs that are four-year program so for them to become a commercial HVAC service tech. There are multiple streams of revenue that makes up services and we're intentionally not providing the details of all of it, because we really don't want to provide the roadmap.

But as we think about digital capabilities, I'll leverage in one of our recent acquisitions earlier this year, we bought a company, BrainBox AI, they were a partner of Trane for a few years and they brought about 20,000 connected buildings into the fleet. We now have over 65,000 connected buildings and we're adding about a building an hour here on average. Think about how to optimize your building with a suite of AI tools. And maybe, Donald, you can probably describe it better than I can, but think about energy savings to a customer with a SaaS-based model that ultimately you like the margins in that space but can be scaled significantly.

Donny Simmons:

Yeah. So when you think about BrainBox, think about the capability. When we add BrainBox into our building automation system for our customers, we're able to show them that we can save them between 15% and 30%, sometimes as much as 40% in electricity consumption and/or gas consumption, depending on their systems. And so by enabling that technology going in, we're able to essentially give a very big value proposition to our customers to make sure that that's something that they can see. And this is agentic AI.

So this is actually looking at the environment and making predictions based on what's happened over time in terms of what's going to happen in that space. It could be the wind, it could be the sun position, it could be – there is multiple different factors that it's looking at to make adjustments to how the system is operating, to ultimately reduce the overall operating cost of the system.

Chris Kuehn:

Yeah, we had one customer who, they want to see the proof. They want to see that this application can work for them. So we have one customer with thousands of convenience stores, okay, located all over the U.S. so different temperatures and climates in which they need to operate. And there was a pilot of roughly 40 stores and after three months the savings was over 30%.

So how do you take that energy savings and ultimately scale it to all of their stores and then they're going to have a realized savings and hold onto that savings, further optimize it for how they use it. But ultimately, how do you drive that savings and scale it? And that's what a direct sales force can do with the deep customer relationships we have.

Tim Wojs:

And what does the business model of that type of offering kind of evolve to? Does it just kind of get you a better payback on equipment and you get like a service – you get share that way. Is there like an actual kind of cost savings guarantee or something like that that you're able to offer? Like as that evolves, how does that kind of monetize for you guys yeah.

Chris Kuehn:

In that space it's more of a SaaS-based model. So you're signing a contract and ultimately the software sits on top of it and then manages to Donny's point, how the building's going to operate. We can, in different markets we can, can offer an energy savings guarantee. We do that in our Energy Savings business or ESCO business, but in this space, less so in that area, this is more of a SaaS model. Let's prove it out. Let's see the real savings in your utility bills and then from there, let's scale it.

Speaker A

Tim Wojs:

Okay. Okay, and I guess when you think about the service margins, I mean those have always been really good for you. Maybe just talk a little bit about the underlying profitability of the service businesses kind of relative to the overall kind of profitability of the company. And you've done very well kind of yourself. But I guess, have you seen outsized performance really in the service margin or has the margin improvement been pretty comparable to the rest of the company?

Chris Kuehn:

Yeah, I mean, I'll start with service first. The margins are accretive to the segment margins in each of our regions. The service business, again a third of the company, 90% of that plus is really commercial HVAC service. There is some service that we're doing with parts and what we'll do on the Thermo King transport side, on the residential side, but it's really around commercial HVAC. And then of that it's really to applied systems.

We'll do some service in the unitary space, but really it's more applied systems focused. But it really is leveraging all parts of the P&L. When we think about our three regions, there's different mix of businesses there. And you think about the Americas that has a residential business that we talked at the beginning, right, it's down 20% in the fourth quarter and third quarter in 2025 business and the markets are depressed. It's going to be a slow start to next year. The Americas margins grew in the third quarter despite having that headwind in residential, a headwind in transport as well. So it shows hopefully the power of the commercial HVAC business and the service business that it brings along.

Our hallmark, if anything, is really the business operating system. And one area of it is how we think about managing all parts of the P&L where price versus inflation or cost always leveraging price for innovation. We'll start there and then feeding the business for investments is always key for us.

Tim Wojs:

Okay. I guess I mean, you brought up margins. I mean my question, the enterprise margins are up what, 600 basis points or something like that since COVID. So you're kind of approaching a 19% margin level this year. So very clear you're kind of managing the business to that 25% incrementals. My question is, is the underlying business, has that improved to the same degree that the kind of the total company has, or have you seen a stronger improvement in the underlying incrementals and you're just actually investing more to drive growth? Hopefully that makes sense.

Chris Kuehn:

Yes, a bit of both. I'm going to say more latter. We've seen a strong, strong improvement with the underlying business. It starts with being a lean operator and driving strong incrementals on volumes. Again, the equations we think about price versus cost, the equation around productivity versus other investments and also really leaning in on investments. In fact, Donny and I are in a meeting in a couple of weeks which is our twice annual innovation review by business unit.

And what are the in-flight projects and how they're executing. And then here's the approval to bring even more investments in as we accelerate. So, it's a combination of fundamentally improving the margins of the business and also increasing the investments that we've done over

the last four or five years. But a lot of the investment is going into the commercial HVAC space we did really on a relative basis.

Donny Simmons:

And so we look at the investment on an ongoing basis. Not only innovation but also, capacity. We talked about the fact that we've added in the last couple years, four times the capacity in our applied systems in order to meet the demand in the marketplace. And so that's also an investment that we're constantly looking at. We invest in our technicians. I talk about, the service technician lab. We're also adding technicians; we're adding front end tools to help make them more efficient. And so, the investment is happening across the board.

Tim Wojs:

Okay, any questions from the audience?

Q&A

Question: [Question Inaudible]

Chris Kuehn: Sure. So the question is on the European business outside of or the international businesses outside of Americas. Americas represents 70% to 75% of the company. And we think about EMEA, it represents around 15%-ish. And then Asia for us represents around 7% of the company. But I'll lead with commercial HVAC in Europe, for example. Those markets have been at best flattish, maybe up low single digits. And that business has continued to deliver high single digit growth in commercial HVAC over the long term. And a lot of that has to do with the same innovation we talked about in the Americas, it applies into Europe and EMEA as well.

In Asia, think of that business as half China, half rest of Asia. And it's 90% commercial HVAC. In EMEA, it's probably 65%, 60% commercial HVAC, 35% transport. In Asia, it's 90% commercial HVAC. And they actually lead in terms of margins for the company.

And again they win and outperform based on the innovation they bring to the markets there. A year ago, we actually tightened the credit policy in China specifically because we wanted to work with more end users, less of the thinly capitalized mechanical contractors. And I think that's been a big move and a smart move for our team there that they decided, let's go ahead and focus. And we're seeing that sequential improvement since that decision. So that's moving in the right direction.

But it's still true that a lot of innovation in Europe actually starts there and it comes on over to the U.S. We made some very nice acquisitions in Europe on air handling and in process – industrial process cooling. And those are avenues we've been able to take those products and/or those innovations into the Americas market as well. But great businesses, great leaders, they're not here today.

Donny's here for the Americas side, but I'm sure a day doesn't go by where they're all talking with each other in terms of how we're leveraging the portfolio.

Tim Wojs: Anything else?

Question: Maybe just on data centers. Could you talk a little bit about the competitive landscape, how kind of Trane fits in? There's a lot of different business models. I mean, you guys do a lot of chillers, obviously. There's a lot of other companies in the space that do everything from kind of close to the server rack to chillers. So what's kind of your competitive advantage in the data center market and how do you see your competitive offering evolving over time?

Donny Simmons: Sure. Yeah, I think our competitive advantage comes down to a few factors. One is our innovation cycle in terms of how we focus with those customers. Those customers want the next innovation continuously. And so historically, where we would take 12, no, sorry, call it 24 months to develop a new product and then we would sell it. Now we are talking about concepts with customers, selling those concepts to the customers, and then developing the product and implementing it and then shipping the product within 12 months. So that speed is critical. So that's one element, sorry, innovation is one.

The other is back to our model. I mean, even with data center customers, having a company-owned channel with having relationships directly with the data center customers, having relationships with the general contractors involved, having relationships with mechanical contractors involved is very important overall. And we are uniquely positioned from that standpoint.

And then finally, and just as important, is our service capability. This is extremely important for our customers. The ability to have just in North America or the Americas, 4,500 technicians that are skilled in commissioning systems is extremely important. And so we talk about that 4,500. Not every technician is the same, so just be careful when you hear the number of technicians. Our technicians are skilled applied technicians, meaning they know how to start up and commission the systems that we sell to our customers. That is also a critical capability for us as well.

Chris Kuehn: Again just given that innovation timetable that's compressed with data center customers, what we haven't seen yet, but it is in the future, what's the spillover impact of that innovation to the other 13 verticals where we're leveraging applied systems? And so while it's important to highlight data centers, and we did highlight in the third quarter with \$6 billion of bookings, we had a few large bookings that were data center related that we said over \$100 million.

We also really like talking about the other 13 verticals and what we're seeing there because the majority of that direct sales force and a lot of the data center growth is in the U.S., as we know. A lot of our direct sales force is more focused on those other verticals than they are data centers. So while we love that piece of it and the growth and we've got every ability to serve those customers, it's as important for us to make sure the other verticals are well served, and they're.

Question: I guess as more of your customer base kind of focuses on decarbonization and kind of lowering that footprint, how have the kind of payback periods changed or evolved over the last, call it, five years? Are our customers still in kind of that same numerical type payback, or have they kind of extended their willingness to kind of invest? If there are other attributes to that payback, I guess, how has that evolved?

Chris Kuehn: I'll start. I mean, we've led with green for green. And depending on where you want to lead with, you want to lead with sustainability green, and then it has a strong payback. Or do you want to lead with a strong payback and you're getting a great sustainability outcome? We can – we see it as it's not a trade-off. It's green for green. Having a direct sales force and knowing all the incentives on a local basis allows us to bring the power of whatever is available from a local and a state perspective.

Are there things in the one big beautiful bill we would have loved to have been extended but weren't, yes. Yes. At the same time, it has not driven significant changes to the paybacks. So maybe paybacks are a little longer from a federal perspective. However, what's interesting is keep looking at those state and local incentives.

And then look at those utility partners there that are trying to decarbonize their emissions. If you're in the New York area, they're trying to get off steam and more electrified. I'm sure Chicago is the same way. That's an area where our local sales force knows those regulations, and that's what they bring the power to the customer.

Donny Simmons: I would also add that there's a little bit of a misnomer here. You think about a traditional system in the commercial space. A traditional system is two different systems, one for heating and one for cooling. And what we're talking about when you talk about decarbonization is this one system for heating and cooling. So the payback is there.

In fact, today, you heat with a system, typically using fossil fuels. You cool with a system, and you're wasting heat. So this is using the free heat that you're creating to heat the building. So this is the payback is there. We're seeing very competitive paybacks for our customers from that standpoint. That's the mindset change there.

Chris Keuhn: Yeah, could well be under three years in terms of a payback. So from a regulatory perspective, not as much of a change. It's still a very strong payback, and there isn't the trade-off between if you want something energy efficient, you're going to ultimately wind up having a higher cost over the life, that payback is very, very strong.

Tim Woks: Okay. Good. We managed to make it 27 minutes without talking about residential. So maybe just as you kind of step back and you think about the residential business, what in your opinion is kind of been the root cause for the pullback this year in kind of the residential activity? And how do you kind of think about that business from a longer-term perspective?

Chris Kuehn: I'll start. I mean, you really have to look at residential. There were three factors this year for the market. One is a refrigerant change. And what that refrigerant change caused was a pre-buy. And so in fact, you could probably argue there were two pre-buys in the marketplace. One was for refrigerants, and maybe the second was for tariffs, and so that was one factor.

The second factor is canister shortage. None of us predicted that with the refrigerant change, there would have been a canister shortage for the installation of the equipment. And so in the spring, the dealers that do the contractors that do the installations could not get refrigerant to do the installations. So that was a problem.

And the third is the heating or the cooling season was shorter than what we had expected. And so those were the three factors. And of those, two we know won't repeat in next year. But that caused a lot of problems for the entire industry in the first – really in the second half of the year.

Donny Simmons: Yeah. We do not see that it's structurally changed, Tim. I mean, we see it as over the long-term, a GDP plus business. And we see what – we expect some inventory needs to come out of the channel between the end of the third quarter and the fourth quarter. We have very good insight with our independent wholesale distributors in terms of the inventory levels they have and the inventory levels they would like to achieve. So we factor that into our guidance from our earnings from a few weeks back. And we will see what they are able to achieve over the next few months at the end of the year. And then that will set up for 2026. But structurally, we do not see a change here in the industry.

Tim Wojs: Yeah. So from your perspective, it sounds a lot more cyclical than some sort of new baseline for replacement that's somehow kind of entering the market?

Donny Simmons: Yeah. I mean, for us we're about 80% replacement market in residential. And just to step back, residential represents about 15% of our enterprise revenues. It's over time gotten a bit smaller just given the strength of the commercial HVAC business. But structurally, we don't see a big change there over the long-term.

Tim Wojs: Okay. Great. And then just the last one on just M&A really quickly. Any areas of focus? I mean, a lot of what you guys have a great balance sheet and really strong free cash flow. Any – you've done BrainBox. You've done some other kind of smaller kind of channel type acquisitions. Anything that you're kind of particularly focused on heading into next year?

Chris Kuehn: Yeah, maybe under the radar, but we've done about 25 acquisitions since Trane Technologies was launched in 2020. A lot around early-stage technology, some channel. We're doing some acquisitions in Europe as well around the transport channel. It's actually impacting the margins in the short-term, but these will be great outcomes as to drive share growth in each of those areas where we're buying back channel.

But look, as a big HVACR player, we get to see pretty much everything that comes across the marketplace and where we think we can inflect in terms of margin expansion and market share growth. And ultimately, good returns for shareholders will remain disciplined there. But we like

taking those early-stage technology applications and scaling it with the direct sales force. And some of those examples like BrainBox and Donny has got great examples in the Americas, that can be scaled globally as well.

Tim Wojs:

Great. We're out of time, so please join me in thanking Trane for being here.

Chris Kuehn:

Thank you.

Donny Simmons:

Thanks, Tim.