

Trane Technologies
Q3 2025 Earnings Conference Call
October 30, 2025 / 10:00 AM EST

Operator: Good morning. (Operator Instructions) At this time I would like to welcome everyone to the Trane Technologies Q3 2025 Earnings Conference Call. (Operator Instructions)

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

Please go ahead.

Zac Nagle: Thanks, Operator. Good morning. And thank you for joining us for Trane Technologies' Third Quarter 2025 Earnings Conference Call. This call is being webcast on our website at tranetechnologies.com we will 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 our 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 Chris 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 open the call with a few thoughts on our purpose-driven strategy that fuels our strong performance over time. The demand for sustainable resilient infrastructure has

never been greater. That's especially true here in the U.S., where the AI revolution and reshoring of industry are transforming how businesses operate at an unprecedented pace.

Trane Technologies is at the heart of this evolution, helping customers reimagine their operations for greater performance and sustainability.

Our high-efficiency solutions help our customers save energy and reduce operational costs.

We're proving that there is no trade-off. That's good for the environment, is good for the bottom line.

As we look ahead, our innovation and expertise continue to set us apart.

With our elevated backlog, robust customer demand and strong financial performance we are well positioned to continue to deliver long-term value to our employees, customers, shareholders and the planet.

Please turn to Slide 4. Q3 was another strong quarter marked by record quarterly bookings of \$6 billion, representing organic growth of 13% year-over-year.

We delivered 170 basis points of adjusted operating margin expansion, 15% adjusted EPS growth and robust free cash flow.

Our global commercial HVAC businesses delivered outstanding performance.

This was particularly true in the Americas where commercial HVAC bookings reached an all-time high, surging 30% year-over-year, with applied bookings more than doubling. The strength of our commercial HVAC business is further underscored by our Q3 ending backlog of \$7.2 billion.

However this total backlog figure does not tell the whole story. Compared to year-end 2024, our Americas and EMEA commercial HVAC backlog has grown substantially, increasing by over \$800 million or approximately 15%. Excluding residential, revenue growth remains robust, up approximately 10% in the third quarter.

We are well positioned for growth in 2026, given strong execution through our business operating system and our rapidly expanding pipeline of projects in data centers and core verticals.

Our leading innovation and direct sales force provide us with distinct competitive advantages.

Our services business, which constitutes approximately a third of our total enterprise revenues remains a durable and consistent growth driver, up low double digits year-to-date and boasting a low-teens compound annual growth rate since 2020.

Our guidance reflects the impact discussed during our September update, which Chris will elaborate on shortly.

Please turn to Slide 5.

As discussed in our Americas segment, commercial HVAC continues to deliver standout performance. The team achieved its third consecutive quarter of record-breaking bookings with approximately 30% growth.

We are winning in both core vertical markets and high-growth verticals such as data centers.

In high-growth verticals, customers demand innovative, highly engineered solutions tailored to their specific requirements. They need customer-focused partners with the expertise and capacity to grow alongside them, which plays to our strengths.

Our direct sales strategy enables us to capture a significant share of these opportunities and consistently outgrow our end markets. This is demonstrated by our Applied Solutions bookings growth of over 100% in the third quarter. Commercial and HVAC revenue growth was also robust, increasing by low teens in equipment and low double digits in services.

Our consistent market outgrowth compounds revenues year after year for perspective.

In the third quarter, our applied revenue growth on a 3-year stack was up more than 125%.

Turning to residential. Bookings and revenues declined approximately 30% and 20%, respectively, consistent with the update we provided in September.

In Americas, transport refrigeration, bookings were up low teens, while revenues were flat despite end markets being down over 25%, we continue to outperform. Commercial HVAC strength was not limited to the Americas.

In EMEA, commercial HVAC bookings increased by high teens, while revenues grew by mid-single digits, consistent with our expectations.

EMEA transport bookings rose by high single digits, while revenues declined by low single digits, outperforming end markets, which were down mid-single digits.

In Asia Pacific, Commercial HVAC bookings were up mid-30s, while revenues grew low teens in the quarter. Growth was strongest in China, rebounding from the anniversary of our credit tightening policy in the prior year. The rest of Asia delivered solid performance.

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

Chris?

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 6. Dave covered many key points from this slide earlier, so I'll keep my comments brief.

Our organic revenue growth of 4% aligns with our September update, where we shared our expectations for a \$100 million revenue shortfall from our July guidance related to softer residential markets. Despite the challenging residential markets, we achieved strong margin expansion and EPS growth, driven by robust growth in our commercial HVAC and services businesses, strong productivity levels, and prudent cost controls implemented early in the third quarter.

Please turn to Slide 7.

In the Americas, we delivered 4% organic revenue growth, driven by strong volume growth in our commercial HVAC business and positive price realization, offset by a significant volume decline in our residential business. Adjusted EBITDA margins rose by 90 basis points to over 23%, supported by strong productivity and prudent cost management.

We also sustained high levels of business reinvestment.

In EMEA, we delivered 3% organic revenue growth, primarily from volume growth in our commercial HVAC and transport businesses.

Adjusted EBITDA margins declined by 60 basis points as expected, mainly due to year one M&A-related integration costs and improved sequentially from the second quarter.

We have intensified channel investments and M&A this year to support growth and future opportunities, which are impacting near-term margins but strengthening our business for the long term.

We also maintained high levels of business reinvestment.

In Asia Pacific, organic revenue increased 9% due to strong volume growth and price realization. Adjusted EBITDA margins improved by 230 basis points, driven by strong volume growth in China and productivity across the segment.

We also sustained high levels of business reinvestment.

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

David Regnery: Thanks, Chris.

Please turn to Slide 8. 2025 is unfolding as expected for most of our businesses with the residential market slowdown being the most significant change impacting our outlook.

Our commercial HVAC businesses globally are performing well meeting or exceeding our expectations for the full year.

Our Americas Commercial HVAC business is executing at a very high level, significantly outperforming end markets.

As mentioned earlier, both bookings and revenues are compounding at a high rate, especially in Applied Solutions.

Our Americas commercial HVAC results are remarkably consistent with 3-year stack revenue growth of approximately 50% achieved in Q1 through Q3 of 2025 and expected for Q4 as well.

Our residential business outlook remains unchanged from our September update with Q3 and expectations for Q4 revenue to be down approximately 20% each. Compared to our July guidance, the combined revenue impact is a reduction of approximately \$250 million, with \$100 million in Q3 and \$150 million in Q4 as channel inventory continues to normalize.

Turning to the Americas transport market.

As forecast for 2025 has softened incrementally with the fourth quarter taking the brunt of the impact now down more than 30%. Despite this, we expect to outperform in Q4, with revenues expected to be down approximately 10%.

Our outlook for EMEA and Asia remain unchanged.

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

Chris?

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 9.

Our revised guidance anticipates approximately 6% organic revenue growth for the year, factoring in headwinds from the residential and Transport Americas markets, as Dave mentioned earlier.

In addition, our Commercial HVAC Americas business saw the timing of some customer desire delivery dates move from Q4 into 2026. Altogether, the total impact of these headwinds is approximately 2 percentage points on 2025 revenue growth.

Our 2025 adjusted EPS guidance range is now \$12.95 to \$13.05 and up 15% to 16% year-over-year and incorporates the Q4 revenue headwinds previously discussed.

We expect organic leverage of 30% plus in 2025 and believe we're on pace for another year of 100% or greater free cash flow conversion.

For the fourth quarter, we expect approximately 3% organic revenue growth, driven by continued strong commercial HVAC growth. Excluding residential, organic revenue growth is expected to remain robust at approximately 7%.

We're targeting organic leverage of approximately 30% in the fourth quarter which includes strong business reinvestments for future market outgrowth.

Consistent with our full year adjusted EPS guidance, we expect Q4 adjusted EPS to be in the range of \$2.75 to \$2.85.

For additional details related to our guidance, please refer to Slide 17.

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 optionality 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 our calculated intrinsic value.

Please turn to Slide 11. Year-to-date through October, we've deployed or committed approximately \$2.4 billion through our balanced capital allocation strategy including approximately \$80 million to dividends, \$160 million to M&A, \$1.25 billion to share repurchases and \$150 million to debt retirement.

These figures exclude \$260 million from M&A and \$100 million from share repurchases made early in the year, which were included in our fiscal year 2024 capital deployment targets as discussed during our fourth quarter earnings call.

We have approximately \$5 billion remaining under our share repurchase authorization, providing us with significant share repurchase optionality.

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. The Americas transport refrigeration markets have been dynamic but the long-term outlook remains strong. [ACT] projects the trailer market to bottom in the first half of 2026 improved in the second half and grow over 20% for the full year.

In 2027, ACT anticipates another significant increase with growth exceeding 40%.

We are navigating the down cycle effectively in outperforming end markets.

We continue to invest heavily in innovation and look forward to adding another growth driver to our portfolio when the market strengthens. Turning to Slide 14.

We expect to provide 2026 guidance during our fourth quarter earnings call but I'll discuss our early views based on current insights.

We expect continued strong growth in our commercial HVAC businesses, which make up 70% of our total revenues.

Our world-class direct sales and service teams give us a competitive edge, allowing us to pivot quickly across vertical markets to capture growth opportunities.

With the broadest and most innovative portfolio in the industry, we are relentlessly reinvesting to support a rapidly growing pipeline of opportunities.

Our proven track record of compounding bookings and revenue growth, especially in high-growth verticals like data centers, underscores our strength as a leading climate innovator.

Our commercial HVAC backlog is not only elevated but growing, up more than \$800 million from year-end 2024, positioning us well for continued strong growth in 2026 and beyond.

In residential, which represents about 15% of our revenues, we believe over the long term that the industry remains fundamentally healthy with a GDP plus framework.

We expect 2026 to be a tale of two halves. A challenging first half due to tough comps, followed by improvement in the second half against easier comps.

In our Americas transport business, accounting for about 7% of our revenues, we also foresee a tale of two halves, with soft markets in the first half and recovery in the second.

While the recovery slope may vary, we are aligned with freight markets recovering in the second half of 2026.

Our focus on innovation yields healthy pricing opportunities and our business operating system is prime to stay ahead of tariff and inflationary pressures.

Our services business comprising about a third of our enterprise revenues is a key driver underpinning our growth in 2026 and years to come.

We have a proven track record of driving strong services growth.

We see continued growth opportunities across our portfolio, particularly in commercial HVAC, where our large and growing installed base and increasing mix of applied solutions carry a strong higher margin services tail.

Additionally, our rapidly growing connected services portfolio is seeing increased demand for digital performance optimization and demand side management for our Energy Services business excels.

Overall, we are excited about the opportunities for continued growth in 2026.

Please turn to Slide 15.

In closing, our leading innovation, elevated backlog and strong customer demand position us for strong performance in 2026 and beyond.

Our uplift in culture continues to attract the best talent, powering our innovation.

Our solutions offer strong returns to customers and also contribute to a sustainable world. This drives our consistent track record of performance and positions us to deliver differentiated value for shareholders over the long term.

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

Operator?

Operator: (Operator Instructions) Your first question will come from Chris Snyder with Morgan Stanley.

Christopher Snyder: Good morning, guys. I wanted to ask about Americas margins. You guys put up a 40% incremental almost in Q2. Q3 was like 50 despite negative mix away from resi.

So I guess kind of my question is really on the service margins.

As the company adds technology and fixed assets to the service or aftermarket business, is there an opportunity for service incremental margins to improve versus history because it feels like we're effectively kind of replacing more variable human costs with more static fixed costs, whether it be technology or something else?

Any thoughts there would be helpful.

Christopher Kuehn: Chris, this is Chris, I'll go first, and then Dave may jump in.

So very happy with the Americas margin performance in the third quarter.

We operating income margins were nearly 22%, up 120 basis points on a year-over-year basis. And when you think about service, we've described service margins to be higher than the segment average. They're higher than equipment margins.

And we continue to invest strongly in that space across front-end tools, service technicians, sales account managers. And I think we like the path that those margins should be on going forward. There's absolutely an opportunity for those margins to expand.

David Regnery: Yes. And the only thing I would add, Chris, we're also investing heavily in our training organization. And we just opened a new training center here in North Carolina. And it's just we want to make sure our techs have the best tools in front of them in front of our customers.

We want them to be the smartest as they can be.

And all of our connected solutions, our training, it all adds up to technicians that are more productive. And by the way, our service business is growing at a very nice rate as a result of that.

Christopher Snyder: Appreciate that. And then maybe going over to orders, applied plus 100%, obviously a pretty massive number and I know you can't continue to grow orders 100%, obviously.

But is there -- anything in that feels one timing, that's worth calling out.

It does seem like the pipeline, I think you referred to it as rapidly growing.

So it still feels like there's a lot of opportunity out there.

But any kind of comment on that applied number? And anything at the end market level would be helpful.

David Regnery: A good question.

Obviously we're very strong in all of our verticals. Data center certainly had a lot of growth.

We did see several large orders in the third quarter. You could think of a large order as over \$100 million.

I guess my framework has changed there.

But yes, so we have had several large orders.

I'll just remind you that data center orders can be more uneven -- so you may see them one quarter or not another.

But look, the pipeline of activity, it is what it's really encouraging. And it's -- I had the opportunity -- I was walking to a meeting yesterday on campus, and I ran into one of our chiller portfolio managers and this individual stopped me for what I thought was going to be two minutes.

It ended up being 15 minutes about tell me about all the robust demand that they're seeing in the pipeline, the orders we're receiving, the innovation that's going to be coming out or is out now.

So look, there's a lot of momentum out there right now. And I would tell you that Trane Technologies is doing a great job of capturing more than our fair share of that momentum.

Operator: Your next question will come from Andy Kaplowitz with Citigroup.

Andrew Kaplowitz: Hey guys. Dave, Chris, you grew revenue low teens in Americas Commercial HVAC equipment and in Q3.

But is there any reason why your growth there wouldn't follow the reacceleration in Americas commercial HVAC bookings that you've seen lately and set you up actually for as good or stronger commercial HVAC organic revenue growth in '26 versus '25? And is the reacceleration in bookings, I mean you talked about large projects. How are other verticals doing besides data centers?

Christopher Kuehn: Andy, I'll start.

Look, the Commercial HVAC Americas business has had a great year, and it's going to continue to perform strongly in the future. When you think about our full year guide for that business, we're expecting revenues to be up low double digits this year. Q4 will be up around 10%. And when you think on a 3-year stack for that business, it's consistent every quarter this year, a 3-year stack of 50% revenues for our commercial HVAC business.

So certainly, the backlog and the order rates continue to give us more confidence on growth into the future. And as you know services really underpins that business as well.

It's about a third of the enterprise revenues.

It's roughly half of the commercial HVAC and the Americas revenues and that will -- we see that being a tailwind for many years to come as well.

So we'll dial in 2026 when we are on our next earnings call but we're expecting this business to continue to have strong growth going forward.

David Regnery: Yes. And the only thing I would add on the verticals, Andy, certainly very strong in data centers. Health care was also strong. Higher ed was strong, government was strong.

We'll see how that goes with the government shutdown.

But right now government was strong. And we also saw some strength in office, which was good to see.

So overall, pretty balanced strength that we're seeing out there in our core verticals as well as the high-growth for.

Andrew Kaplowitz: Great. And then you didn't change your incremental revenue impact on resi HVAC in Q4 that you told us about in September.

But can you give us more color on what you're seeing in your channel. There's obviously the data out there as to when and resi will be right size.

I know you already talked about relatively weak first half of '26, mainly due to tough comps.

But do you think inventories could get in balance by the end of the year? How do you think about that?

David Regnery: I mean we're hopeful it gets rebalanced.

I mean 2025 was such an odd year for residential, really, it started with a prebuy. You could argue that maybe was two prebuys with a little bit pre-tariffs.

Then you had this refrigerant change that didn't go very well because of the canister issue that was well publicized.

And then you had a really short summer across the U.S.

So those three factors are kind of anomalies that we look at in the resi space.

Obviously that caused a bit of inventory in the channel that needs to be burned down. And our plan is, hopefully, it's burned down by the end of the -- at least by the end of the year, if not, it will certainly be burned down by the first quarter.

But we'll give you an update on that, Andy, when we present our fourth quarter earnings.

Operator: Your next question will come from Julian Mitchell with Barclays.

Julian Mitchell: Good morning, maybe I just wanted to understand a little bit the operating leverage guidance change.

So you've moved to sort of 30% plus there on the organic front, it's a bit higher than before, and that's even with the revenue organic guide being lowered a touch overall.

So maybe help us understand sort of why is that operating leverage moving up? Does it reflect kind of exceptional cost control that may have to unwind a bit next year? Or is it more to do with something in the sort of shape of the business, particularly in commercial HVAC, that's giving you that more structural entitlement to higher incrementals?

Christopher Kuehn: Julian, it's Chris. Yes, look, first off, we manage all parts of the P&L. And when I step back and I see the volume growth in commercial HVAC, we're getting strong leverage on that volume growth. You're right. There's headwinds in the business we've described in residential and transport.

And in the fourth quarter, some revenue shifting out to next year in commercial HVAC.

But we're really offsetting nearly all of these headwinds on an EPS basis really because we're managing all parts of the P&L. Multiple areas there.

I mentioned volumes. There is a strong cost management.

Think of us as leveraging our scenario plans and our business operating system, where beginning part of the third quarter when we saw the lower volumes in residential.

We made sure that we were managing all parts of our cost.

It's a combination of discretionary cost control as well as some structural cost takeout, and you expect that from [a lean] operator.

What we didn't do, we haven't cut investments.

So we're preserving investments and there's a number of investments we had planned for the fourth quarter, and Dave was very clear, and I, we're not cutting those investments.

We're moving forward with those because they set us up for future growth.

So I'd look at the cost management, strong volumes in commercial as well as making sure that we're preserving investments.

David Regnery: Yes. The only thing I would add is on the scenario planning, what we do really, really well is it's what you will not cut and we spend a lot of time on that. And that's why, as Chris said, we're continuing to reinvest in all of our businesses. And we have projects out there that we know are so important for our future, that those are all ring-fenced.

So we make sure that those are things that we will not cut because they're about our future.

The teams do a great job there of identifying those and making sure that we're going to be not only ready for a particular quarter, but really well into the future.

Julian Mitchell: That's great to hear. And then just my follow-up would be around pricing. Maybe just give us any color as to the price contribution to firm-wide revenues in the third quarter. And within those resi Americas market, specifically, what's your comfort level that price discipline can hold up as this inventory destock plays out?

Christopher Kuehn: Julian, price for the quarter was a bit above 3 percentage points.

We've been tracking around 3 percentage points in the first half of the year. And from a full year guide perspective, think of the 6% organic revenue growth is roughly 3% price, 3% volume.

I'd say we just continue to manage all the inflationary inputs well and ensuring that we've got a positive spread over price versus cost.

In residential, it's really about a volume story there.

We're obviously shifting into very much this year into 454B with a price/mix contribution. There'll be a little bit of carryover going into next year, but we're also just making sure we're staying ahead of a very dynamic environment in terms of cost inputs and remaining nimble.

So we'll continue to do that.

David Regnery: Yes. And under resi, the industry has remained disciplined, Julian.

Operator: Your next question will come from Amit Mehrotra with UBS.

Amit Mehrotra: Chris I wanted to ask about organic growth between the applied equipment and light commercial.

I know together, those grew low teens. Hoping you can give us a little bit more color on just the applied equipment side. And just given where the backlog and orders are for the equipment, obviously the sustainable growth opportunity in service. Those two are kind of 50% of the business, do you think growth can be maintained at the current levels, accelerate, decelerate because you have large numbers?

What should be the right expectation prospectively for those growth rates for those two particular parts of the business?

David Regnery: Yes.

Look, applied was very strong, okay? Very strong. Unitary was positive.

I guess that's a good news, but it has not been a big contributor this year to our growth.

We'll see how it plays out next year.

As far as services goes, look, our service business is very consistent. And we continue to put up nice growth rates there.

If you go back to 2020, our compound annual growth rate, as I said in my prepared remarks, is -- it's in the low teens, which is very, very strong. And by the way, that doesn't happen by accident, okay?

We have a very detailed operating system around our service business that allows us to do that. And if you think about all what's happening with our Applied Solutions and the installed base continuing to grow, look, the future is very, very bright for our service business.

Amit Mehrotra: Okay. And just as a follow-up maybe for Chris, the company, you guys have this framework for top quartile revenue earnings growth kind of year in, year out.

I interpret that to mean kind of high single-digit revenue growth, maybe low to mid-teens EPS growth.

Obviously you're achieving that this year, which is incredible in the context of what's happening in the residential market.

But just given kind of where the commercial HVAC business order momentum is hopefully, resi is better next year than it is this year, obviously should be.

Should we see an accelerating revenue and earnings algorithm next year? I would assume that would be the case just given the headwinds you're facing this year.

Christopher Kuehn: Yes.

I mean look, I think the future is bright.

We'll update investors in about three months on our next earnings call.

But we do go into each and every year thinking about how we're going to plan for top quartile, top line growth, EPS growth, and let's not forget about free cash flow conversion with a 4-year average well over 100%.

We're one of the leaders in that space of converting that earnings to free cash flow.

But with down markets in residential and transport, we know the first half of 2026 is going to have some tough comps or a tough start to the year, okay. And to -- off of tough comps.

Let's see how the full year looks like.

We'll update you in a few more months. Things are dynamic.

But certainly, the growth of commercial HVAC and over 90% of that backlog is for commercial HVAC, of which the vast majority of that is applied systems, gives us a lot of confidence that we'll see strong growth in that business next year.

Operator: Your next question will come from Scott Davis with Melius Research.

Scott Davis: Hey guys. Those applied bookings were big numbers.

Is there any of that, that's leaking into '27? I know the industry standard used to be kind of 1-year max lead time.

Is it now leaking out a little longer than one year, just given how strong demand is?

David Regnery: Not really.

I think there might be just a little bit in '27. Most of it's going to ship in the next 15 months.

Christopher Kuehn: Yes.

In the backlog, in terms of some of the large orders, customers give us insight on what they're going to place, but we won't put it into the backlog until there's a signed PO.

So there are slots, let's say, that we're expecting to be filled for 2027, but that will convert to orders here starting in the fourth quarter into 2026.

David Regnery: Yes. And to add, the pipeline of activity, I know we had very strong, and I'm proud of what the team is at the third quarter.

Our pipeline of activity is extremely robust right now.

Scott Davis: Yes. Clearly. Yes.

So guys, I just wanted to switch gears a little bit. You put out a press release two days ago on this thermal management system, the reference design for Nvidia.

What's new in that design?

It looked like to me almost implied that you guys are making the CDU and kind of doing kind of the A to Z. Just kind of maybe talk about what's new in that design or the importance of it.

David Regnery: If I told you I wouldn't be able to talk to you anymore, Scott. [Chuckling] They're a leader, obviously in the chip side of things, and we're helping basically, as a leader in that vertical, and I've been saying for a long time we're a leader in the data center vertical.

We're working with all influencers, whether it be hyperscalers or whether it be great companies like Nvidia that we're working with. And it's really about our very technical engineers working with their technical engineers and coming up with solutions that in some cases, we didn't think were possible just a very short period time ago.

So more to come on that.

We're excited about working with Nvidia.

We've been working with them for a while, and we think there's a lot of opportunities. And the innovation that we're seeing in the data center vertical is moving very, very fast and we're there moving with it.

I would also tell you that a lot of this innovation, as we develop, we're pulling back into our core markets as well.

So it's additive.

We like being challenged.

We like sitting at the table.

We like them in our labs, showing them what we can do and when smart people challenge each other, usually have great outcomes.

Operator: Your next question will come from Tommy Moll with Stephens.

Thomas Moll: I appreciate you taking my question. Wanted to ask about EMEA margins, which we haven't covered in enough detail yet, just given some of the comments you made there about recent investments that have pressured those margin percentages a bit.

What's the timeline look like there? Or when -- assuming continued top line progression, you could start to see some positive margin dynamic?

Christopher Kuehn: Yes, Tommy.

Look, the third quarter for our commercial HVAC business in EMEA came in really as expected.

For our second half guide, we knew that the revenue growth will be stronger in the fourth quarter than the third quarter, really based on the timing of when customers want their products.

We also expected sequential margin improvement throughout the year, and we saw that also in the third quarter versus the second quarter.

Some of that for their segment is really around some recent M&A that we've completed, both in the transport channel in the commercial HVAC channel. That just on day one had lower margins than the segment average.

So we'll work through that throughout the year.

But those M&A transactions are very important to give us more opportunities for growth in the markets that they serve.

So we're excited about that.

The region has continued to invest on its front end and sales and service portfolio.

I think that's largely anniversaried at this point as we go into the fourth quarter, but we would expect those margins to continue to grow and accelerate into 2026.

Thomas Moll: And if we zoom out and look at consolidated margins, specifically next year? Obviously you're not going to guide today, but are there any variances to your typical planning cycle around the mid-20s conversion that are worth pointing out. And even if it's just a seasonal comment, obviously there are a couple of factors that weigh on the first half and then flip to tailwinds in the second half.

So perhaps you can give some context around that.

Christopher Kuehn: Nothing to call out specifically.

I mean you called out our long-term framework at 25% or better incrementals. And we would go into any planning year thinking along that guidance. The pipelines Dave's talked about in terms of orders and bookings the pipelines for our investments in the company remains very, very strong.

So for us, it's always been about how to pull them ahead to drive growth even faster.

So we'll manage the two of them as we think about 2026.

I appreciate your comment on first half.

I do think for our transport market in the Americas and for residential, those will be tougher first halves in 2026 with expected growth in the second half and we'll put it all together, and the goal would be, let's drive to top quartile financial performance again.

But we'll update everyone in a few months.

Operator: Your next question will come from Joe Ritchie with Goldman Sachs.

Joseph Ritchie: I wanted to just focus my questions just on the data center opportunity and what you're seeing today.

So if you think about kind of like the nature of the projects that you're winning I'm curious whether that's like the nature of the projects have changed.

So we're speaking about specifically. Like are you starting to see like more modular type data centers getting built by the hyperscalers because the time to market is really important? Just anything else you can tell us around the opportunities that you're booking would be helpful.

David Regnery: Yes.

I mean -- but we've seen that for a while, okay? I mean the amount of stick build that you can reduce on a job site is obviously advantageous because it ensures a smoother build process.

So that's been happening in the data center space for a while.

So we're part of that process.

So I wouldn't say it's a change.

But obviously I think it's a great question, though, because I know we're talking about data centers here, but if you think about other labor constraints and other verticals, that whole modular or less labor required on a job site is certainly something that will trend in the future.

Joseph Ritchie: Yes. That makes sense.

And then, I guess, Dave, just kind of thing going back to Scott's question just around lead times, right? You have certain parts of the of the value chain that are out like I think turbines are out like three to four years in terms of when they can get delivered.

And given that your lead times right now are really kind of 12 to 18 months, I mean it just seems like the opportunity for you, like you've just got a lot of like already based on what we're seeing in the value chain, the opportunity for you guys should be really strong really through the end of the decade. And I don't want to put the cart before the horse here, but -- just how are you thinking about this data center opportunity for you guys?

David Regnery: Well end of the decade, I like it.

Look, I think 12 to 18 months, first of all, that may not be our capacity, maybe what the - - when the data center is just given -- the hyperscale is giving us visibility for planned emphasis, we've actually expanded our capacity.

I had the team doing an analysis 2023, we've expanded our chiller capacity by 4x.

So we've invested a lot there, but we're ready for the growth. And by the way, in some cases, our lead times now have actually contracted to a point where we have quick ship programs again.

And that's not for data centers, but that's for core verticals.

But it's the momentum we're seeing is great to see. The innovation that we have is driving a lot of that momentum and we are more than ready to make sure that we can meet the demand that's being placed upon us.

Operator: Your next question will come from Jeff Sprague with Vertical Research.

Jeffrey Sprague: Hey guys. I'm doing great. Not quite as good as you, but I can't complain.

David Regnery: You're up in Connecticut.

So you must be doing great, right?

Jeffrey Sprague: Yes. Yes. Things are good. My question maybe is a little bit related to sort of where Joe was at.

But just thinking about all these large projects, right, things must be slipping back and forth all the time.

I don't recall you calling out project slippage in the last couple of years like you are today with this \$100 million.

Just wondering, even though your lead times are improving, are we starting to bump up against just the ability for the supply chain, the construction community, whatever put this stuff in the ground at the pace they would like? Or would you just kind of characterize what you pointed out today is just kind of normal noise in shipment patterns?

David Regnery: We haven't said anything that I would say is a trend, but we certainly had several customers ask us to wait until 2026 to ship product, which that happens in our industry.

We're obviously never going to ship a product before a job site is ready for it.

But I think it's just timing and timing sometimes there's positives and sometimes there's negatives.

It's just in the fourth quarter.

It's probably more negative for us, and we called out the \$100 million that's going to push into 2026.

But I wouldn't read too much into that. The demand that we're seeing right now is extremely strong, and you see that by our order rates.

So it's normal activity, not concerned about it.

Christopher Kuehn: Yes, Jeff, I would add.

I just wanted to be transparent and we just kind of called it out because it was something we had our internal plans were stronger than that. And so with that news from those customers, we just want to be transparent in terms of that delta.

Jeffrey Sprague: Great. And then Chris, a follow-up for you. Maybe this was partially addressed in an earlier question, but the improvement in corporate, the pickup in other, do those continue into 2026? Was there anything unusual there that normalizes? And also

just a \$0.20 kind of deal-related headwind, I think you still have a headwind next year, but a smaller headwind.

So effectively, it's a tailwind in the P&L, right? Can you maybe just elaborate on that?

Christopher Kuehn: Yes.

Starting in reverse.

I think it is a \$0.20. The M&A this year is about a \$0.20 headwind. Think of that as really the accounting requirements around amortization expense and that's typically heavier in those first few years of an acquisition.

There's also integration costs that we've got planned to really drive the synergies that we see in those businesses.

So should be less of a headwind going into 2026.

We'll dial that in a few months. You're right, corporate was favorable items below the line were unfavorable.

I call out other income, other expense, unfavorable year-over-year.

Tax was actually a bit unfavorable in the third quarter. Very confident we'll have tax favor or at 20% for the full year. That means it will be a bit favorable in the fourth quarter versus, say, 20%, Jeff? But I think, look, lots of investments still that make up our corporate structure, some of the discretionary cost reductions, reduction of, say, open roles.

Some of that does impact the corporate line as well.

So ultimately, but we'll start on investments.

We'll start generally with corporate and then move into the segments as we see benefits.

But I wouldn't read too much into it this year, but we'll dial it in, in a few months.

Operator: Your next question will come from Andrew Obin with Bank of America.

Andrew Obin: Just a question about institutional business.

What's the visibility like into '26? It seems that unit bond market is getting better, and it seems that funding for schools and hospitals is getting better.

So does this mean that this business could accelerate into next year? Or where is the base in '25 because we haven't spoken about it this business for a while?

David Regnery:

I think if you look across our pipeline, like we have a lot of strength in all of our verticals.

So I think it's a great question. And right now I mean -- I've been in this industry a long time. And I would tell you that I'm not seeing pipelines as strong as I see right now probably ever in my career.

So we're very bullish on the momentum, especially in our commercial HVAC team and really in EMEA as well that they have a lot of opportunities in front of them.

Andrew Obin: But the question is specifically about institutional.

So you haven't seen institutional slowdown this year, right, for you?

David Regnery: Well health care was very strong. Education remains strong, especially on the higher ed side of things. No. We have not. The only thing that we've seen, at least in the third quarter may be a bit slower, and it's always difficult to say a quarter makes a trend, but retail was slow.

Industrial slow, life sciences, I don't like to pick on life sciences, but that continues to be a little bit of a COVID hangover over there, I think.

The rest of our markets were pretty strong.

Andrew Obin: And just a follow-up question on data centers. Do you need to build extra sort of muscle to service because you do have fan wall offerings?

What does it take to be able to service inside the data center gray space versus sort of serving your chillers that are sort of outside the building? Is there a discernible difference in what you need to do to your service workforce?

David Regnery: Well it really depends on the data center. And I guess the short answer is, look, we're skilled at servicing all of our products.

But a really good question that you kind of reminded me of was this commissioning capability. And this is, again, one of our strengths with the service business with our technicians, we have a lot of resources to make sure that all of these data centers get commissioned on time. And think of commissioning is when the mechanical contractor says, okay. This particular chiller is ready to go, we go in then and make sure that it's going to operate the way it was designed, call that commissioning and we have a lot of resources that we are able to rifle to any particular data center to make sure that it gets up and running on time.

And I can tell you that, that is something that I'm getting asked a lot of questions on about our capacity there, and it's certainly one of our strengths.

Operator: Your next question will come from Nicole DeBlase with Deutsche Bank.

Nicole DeBlase: Hey guys. Could we maybe talk about the step-up that you guys saw in the EMEA bookings this quarter? Pretty attractive, up 14%. Are you starting the data center orders really come through in a big way yet? Or do you think that's still to come in the pipeline?

David Regnery: We certainly have data center orders in all of our regions, okay, EMEA.

I'm trying to recall the third quarter, nothing comes to mind.

But look, I would tell you that the data center orders in EMEA are a lot smaller from the size of the data center is a lot smaller than what we're seeing in the in the U.S.

So in the U.S., it could be as much as like 1/10 of the size.

So we have a lot of orders that are just smaller, okay?

Nicole DeBlase: Okay. Got it. That's really helpful color. And then if I could ask one on North America resi.

Could you guys comment on was the price mix versus volume in line with what you laid out at the Laguna Conference in September?

And then thoughts on annual price increase in 2026 if it will be kind of normal. And if you think that customers are willing to accept it since price is up so much over the past few years?

Christopher Kuehn: Nicole, yes, the third quarter and our expectations for the fourth quarter are consistent with the September update. Revenues down about 20%. That would imply volumes down roughly 30%. And then the price mix impact would be favorable around 10 points. And then of the price mix, think of that as roughly 50-50, roughly five points plus or minus for each one of those attributes.

For 2026, we're prepared to go into the year.

We haven't seen any structural changes within the industry.

We'll look at all the cost inputs that we have.

We'll look at where we're driving for share. And ultimately, what we look for each of our businesses is to drive strong leverage 25% or better and price versus inflation is one of those levers we'll look at.

So typically, our price increases don't come out until late, let's call it, December, January timeframe for the year.

So we'll update you in a few months on what that standing is for 2026.

Operator: Your next question will come from Noah Kaye with Oppenheimer.

Noah Kaye: So services has consistently had an attractive margin profile. And I'm curious and perhaps goes a little bit to some of your earlier comments.

As you layer in BrainBox and some of the other software offerings into the toolkit, how do you think about sort of a richer software mix impacting where service margins go? How are you implementing that and some of the project management now?

David Regnery: Yes. Great question.

Look, I'll start with, we're very happy with the BrainBox AI acquisition. Together, think of our Trane connected business now with BrainBox, we have over 65,000 connected buildings, and we're adding about one building every hour. And the momentum is increasing.

So yes, you're spot on with your question. This is becoming -- I'm very bullish on the future as far as the connected service opportunities and how you optimize a building using AI.

With BrainBox, we're using agentic AI, okay? So this is where the agent is actually making the decision on how to run the building looking at a vast amount of data.

The margins are obviously very accretive when you're able to deploy this type of software.

We had a convenience store.

So think of thousands of locations. And they gave us a pilot. And we implemented, I think it was 50 of their stores and we ran the pilot for 90 days. And the results were just -- they were amazed by it.

We were able to save the customer.

It was north of 30% on their energy costs. That was a pilot of 50 stores, but obviously they're going to now run that through their entire portfolio.

So this is going to be a fast grower for us.

It's still early innings, but we're excited about the opportunities there.

And as you said, when you start doing subscriptions, the margins are accretive.

Noah Kaye: Great color. And on a similar theme, when you think about what you may want to add into the portfolio, I don't know many basis next year, obviously continuing to generate strong free cash flow.

So there's dry powder there.

Should we think about kind of continued sort of software-centric or are there any parts on the product side that are a particular interest?

David Regnery: Yes.

I mean we'll keep our options open.

We get a chance to look at everything, as I'm sure you know being a major HVAC player on a global basis.

So we'll be opportunistic, but we'll also be disciplined.

So I don't know if you want to add anything, Chris, but.

Christopher Kuehn: I think the capital deployment framework has served us well for many years, and we'll continue to balance without leaving any excess cash on the balance sheet, we'll make sure we toggle that between M&A that meets our internal goals and something that we can integrate well into the company as well as toggle between, if not M&A, then share repurchases when it trades below our calculate intrinsic value, and we'll continue, I think, that expectation for many years to come.

Operator: Your next question will come from Deane Dray with RBC Capital Markets.

Deane Dray: I wanted to follow up on your exchange with Nicole on the data center demands by geography.

If you just look at where the big build-outs are happening now like the Middle East, I would be surprised if they are smaller orders.

But just -- maybe talk about the visibility by region and expectations from there?

David Regnery: You're spot on in the Middle East, specifically Saudi Arabia, we're seeing larger data centers there.

Specific to Europe, they tend to be smaller.

But obviously in the United States, there's some big data centers that are being built. And I would tell you that there's even bigger data centers that are being planned right now.

Deane Dray: And how about Asia?

David Regnery: Yes.

We see in Asia as well.

We're seeing some activity for sure in China, but more outside of China, specifically Singapore, Australia, had some nice orders there.

So there's activity there.

It's nothing is to the size of what we're seeing in the United States right now.

But as you said, in the Middle East, specifically in Saudi Arabia, there's a lot of activity as well.

Deane Dray: Yes.

We've been hearing all about that. And then just last one.

Can you give any comments or updates insights into your investments in some of these liquid cooling start-ups?

David Regnery: Yes.

I mean as you know we made an investment in liquid stack several years ago.

It's going well.

We continue to work with their team, and they continue to work with us and we like having partners like that, right? They're innovative, and we teach them, they teach us and one plus one often equals three or four.

So we'll continue to work with those types of innovative companies in the future.

Operator: Your next question will come from Steve Tusa with JPMorgan.

Stephen Tusa: Congrats on the execution through a lot of noise out there in these markets, for sure. The backlog for commercial HVAC, you guys gave kind of a bit of a like year-to-date increase, I think, from year-end just requires a little bit of math, but like what would that have been year-over-year for commercial HVAC backlog?

Christopher Kuehn: Yes. Year-over-year, enterprise backlog was roughly flattish.

But similar to the walk from beginning of this year, Thermo King and residential backlog down about \$300 million. Commercial HVAC Americas backlog up nearly \$500 million from on a year-over-year basis.

So the mix and the mix of that backlog continues to shift more towards commercial HVAC.

Stephen Tusa: Okay. And so that's up like, what, 6%, 7%?

Christopher Kuehn: From beginning of the year, it's up --

Stephen Tusa: No, from year-over-year. Year-over-year.

Christopher Kuehn: On commercial HVAC, yes, it's probably in that range, probably mid- to high single digits, yes.

Stephen Tusa: Okay. And then just the amount of forward sales kind of in the backlog last year, I think you guys gave an enterprise number of like \$4.1 billion or something like that. Where does that stand this year?

Christopher Kuehn:.

I would just say it's stronger than last year, okay? And obviously we'll continue to grow that front log for 2026 here into the fourth quarter. Lead times continue to, as we talked earlier, lead times continue to be contracting from last year's time to this year.

So Dave mentioned a little bit around quick ship program as an example where we have some opportunities.

But the absolute dollars of backlog for next year, they're up, and we'll give you more of an update as we approach the Q4 earnings call we would expect backlog to remain elevated going into 2026.

Stephen Tusa: Yes. And then just one last one on resi. Maybe just the difference between your captive distribution and the independent.

Christopher Kuehn: For the quarter?

Stephen Tusa: Yes. For the quarter.

Christopher Kuehn: I mean we had sell-through that was down in the high single digits range.

Obviously our resi growth was down about 20%. And I would say the sell-in was a little bit north of that than the 20%, a little bit higher than that.

Operator: Your final question will come from Nigel Coe with Wolfe Research.

Nigel Coe: I appreciate you going a bit further in the game here to get me in.

So you know we're scratching around when we talk about corporate, but maybe just talk about what we should do for 4Q corporate. And then I think the M&A impact went up by \$0.05.

I think we're now looking at \$0.05, slightly greater impacting \$0.20 as the number for the year.

I mean how does that look into 2026? Is that \$0.20 go to 0? Or are we still dealing with some dilution there?

Christopher Kuehn: Yes. I'll answer the second question first.

I don't think the \$0.20 necessarily goes to 0.

Our framework would be we want to make sure we're EPS positive by the end of year 3. And while we're very happy with the start of the BrainBox acquisition, there's an early-stage company, this is a lot of amortization associated with it.

So let's see what it is next year.

I would expect it to be better but wouldn't necessarily think it goes to 0. And then, Nigel, your question on Q4 corporate, the implied number for the quarter is about \$80 million.

We're making sure we have the dollars reserved for the investments that we want to make in the fourth quarter.

So that's how that math works out.

Nigel Coe: Okay. And then my follow-on, I know services has gotten a lot of time on the call. The consistent double-digit growth in services is pretty extraordinary. And I think investors would appreciate if maybe just talk about how the service model has changed, Dave. And what kind of confidence do you have that you can maintain, if not 10%, but high-digit growth going forward?

David Regnery: We're very happy with our growth rates.

I'll start there.

Look, we continue to invest heavily in our services business.

We have a whole business operating system built around it.

I'm not going to create a roadmap for our competitors.

I would just tell you that it's a big part of our business.

It's a competitive advantage that we have, and it doesn't happen by accident, okay? We're investing heavily in it. And you could see the outcomes that we're able to drive.

So we're very happy with our services.

Operator: There are no further questions at this time.

I would now like to turn the call back over to Zac for any 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, and we look forward to seeing many of you on the road in the fourth quarter.

Have a great day. Thank you.

Operator: Thank you for your participation. This does conclude today's conference.

You may now disconnect.