

Trane Technologies
Q1 2026 Earnings Conference Call
April 30, 2026 / 10:00 AM EST

Operator: Good morning. Welcome to the Trane Technologies Q1 2026 Earnings Conference Call. (Operator Instructions)

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

Please go ahead, sir.

Zac Nagle: Thanks, Operator. Good morning and thank you for joining us for Trane Technologies' first quarter 2026 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 note that statements made today are forward-looking and may differ materially from actual results as detailed in our SEC filings. This presentation also includes non-GAAP measures explained in our news release and presentation appendix.

Joining me today are Dave 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'll start with a few thoughts on how our purpose-driven strategy continues to fuel strong performance over time. The dynamic global environment and rising demand for power is pushing customers to think differently about energy.

With our leading innovation, Trane Technologies is uniquely positioned to win. Our high-efficiency systems and smart controls help customers save energy, lower operating cost and increased resiliency, proving that sustainability and performance go hand-in-hand.

Our strategy is built on a strong foundation, our robust business operating system, a powerful cash flow engine and an uplifting engaging culture. This formula positions us to deliver differentiated long-term value to our people, our customers, our shareholders and our communities.

Please turn to Slide 4. Q1 was another strong quarter, marked by exceptional enterprise organic bookings, up 24%, and a record backlog of \$10.7 billion, up over 30% versus year-end 2025.

We delivered organic revenue growth of 3%, led by our Americas Commercial HVAC business and double-digit global services growth. This strong performance translated to adjusted EPS growth of 7%.

Our Commercial HVAC businesses delivered outstanding performance, particularly in the Americas, where our commercial HVAC bookings reached an all-time high, up approximately 40% year-over-year, with Applied Solutions bookings up over 160%, our third consecutive quarter of applied bookings growth of greater than 100%.

The strength of our Commercial HVAC business is further underscored by our combined Americas and EMEA backlog, which is up approximately \$2.7 billion over year-end 2025. This includes approximately \$1 billion from our acquisition of Stellar Energy, a leader in modular data center cooling solutions.

We are exceptionally well positioned for continued growth in 2026 and beyond. Our exceptional bookings and record backlog provides strong visibility to continued market outgrowth and revenue growth acceleration in the second half of the year.

Our robust and rapidly growing Commercial HVAC pipeline across key verticals, including long-term capacity and master purchase agreements in data centers bolsters our confidence in the long-term outlook.

Our services business, which represents one-third of our enterprise revenue, continues to be a consistent and durable growth driver, boasting a low teens compound annual growth rate since 2020.

Additionally, we anticipate residential market tailwinds in the second half of 2026 driven by improving market fundamentals and easier prior year comparisons. The Americas transport market also continued improvement in fundamentals, strengthening the outlook for a late 2026 and 2027 recovery.

Operational excellence is core to everything we do, and we expect to mitigate tariff and inflationary pressures through our business operating system. Altogether, we are raising our full-year revenue and EPS guidance, which Chris will cover shortly.

Please turn to Slide 5.

As discussed in our Americas segment, Commercial HVAC continued its standout performance with bookings up approximately 40% and revenues up high-single-digits.

In high-growth verticals like data centers, customers expect innovative, highly engineered solutions tailored to their unique needs. This plays directly to our strengths including leading innovation, system expertise, proven operational excellence and the capacity to grow with our customers as their needs rapidly expand. These factors and the expertise of our direct sales force enabled us to capture a significant share of these opportunities.

Turning to residential. Bookings were up low-single-digits, while revenues declined mid-single-digits, exceeding our expectations entering the quarter.

In Americas transport refrigeration, bookings were up double digits and revenues were up low-single-digits, significantly outperforming end markets, which saw truck, trailer and APU segments down double digits in Q1. EMEA results were solid and consistent with our expectations, excluding headwinds from geopolitical events in the region.

In Asia Pacific, Commercial HVAC bookings were up high 20s and revenues grew low-single-digits in the quarter, led by the rest of Asia, where bookings were up approximately 50% and revenues were up low-single-digits.

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.

Organic revenue growth for the enterprise was solid, up 3%, led by services growth, up double digits. Enterprise organic leverage was in the high teens and adjusted EPS growth was 7%, demonstrating the effectiveness of our business operating system and driving operational excellence throughout the P&L.

Please turn to Slide 7. Margins across the segments were largely in line with our expectations, with the Americas and Asia operating margins up 10 basis points and 90 basis points, respectively. EMEA margins were impacted by expected first year acquisition and integration-related costs and lower revenues than forecast in the Middle East.

We also maintained high levels of business reinvestment across the portfolio in the quarter, driving our flywheel of innovation and growth.

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

David Regnery: Thanks, Chris.

Please turn to Slide 8. Our outlook for 2026 remained strong, supported by our record bookings and backlog.

Our Americas Commercial HVAC business is executing at a very high level, significantly outperforming end markets. We expect continued strength in data centers and other core markets like higher education, government and healthcare, just to name a few.

Our Q1 book-to-bill was approximately 150% and our backlog is up nearly 70% year-over-year, strengthening our visibility into 2026 and beyond.

Based on our exceptional backlog and the timing of customer deliveries, we expect approximately 10% revenue growth in Q2 against a tough prior year comp of mid-teens growth. We expect revenues to accelerate to low-teens growth as we move through the second half of the year.

In residential, we had a strong start to the year. We expect Q2 to be flattish, pivoting to growth in the second half aided by easier prior-year comps. At this early stage in the year, our outlook remains prudent with flat revenues expected for 2026.

Turning to transport. Market fundamentals continue to improve and are increasingly supportive of a recovery in late 2026 and healthy growth in 2027.

Our market forecast remains largely unchanged, with a mid-single-digit decline expected for full year 2026. We expect Q2 to be down roughly mid-teens based on the timing of large customer deliveries within the year.

As we've discussed previously, given our strong mix of large customers, orders and revenues can be uneven from quarter-to-quarter. We significantly outperformed the transport markets in the first quarter and expect to outperform for the year.

Turning to EMEA. Our results to date and expectations for the year are largely unchanged, excluding impacts related to the Middle East.

First and foremost, we have prioritized the safety of our employees in the region. We do expect continued headwinds in the second quarter of approximately \$50 million in revenues, representing an estimated \$0.05 EPS impact in Q2. We continue to monitor the situation closely.

In Asia Pacific, China remains challenging with dynamic macro conditions. We expect the rest of Asia to be stronger than China in 2026.

Overall, our outlook for the region remains flattish for 2026.

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

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 9. Our 2026 guidance reflects the market dynamics we've discussed, and operational excellence driven by our business operating system. It also incorporates our value creation flywheel, continued investment in innovation, market outgrowth, healthy leverage and strong free cash flow.

We're increasing our organic revenue growth guidance to approximately 7%, the high end of our prior range of approximately 6% to 7%. Our reported revenue guidance moves to approximately 9.5% with unchanged estimates for approximately two points of M&A and 50 basis points of favorable FX.

We're also increasing our adjusted EPS guidance range to \$14.75 to \$14.95, were approximately 13% to 15% of adjusted EPS growth, up from \$14.65 to \$14.85 prior. For Q2 2026, we expect approximately 5% organic revenue growth and adjusted EPS in the range of \$4.20 to \$4.25.

For additional details, 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 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. We are on track to deploy between \$2.8 billion to \$3.3 billion in 2026 through our balanced capital allocation strategy. This includes approximately \$900 million for dividends, reflecting a 12% increase to \$4.20 per share annualized in 2026.

We deployed or committed approximately \$340 million year-to-date for M&A and strategic investments. Our share repurchases year-to-date through April stand at approximately \$300 million, and we still have approximately \$4.4 billion remaining under our current share repurchase authorization, providing significant 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 market remains dynamic, but the long-term outlook is strong. ACT projects the market to bottom in the first half of 2026 and recovered late in the second half. ACT also expects a sharp rebound beginning in 2027 and continued expansion through the end of the decade.

We expect growth as well but anticipate a more gradual slope to the recovery. We're managing the down cycle effectively, outperforming end markets and continuing to invest in innovation, so we're well positioned as the market strengthens.

Please turn to Slide 14. In closing, our strategy is aligned to powerful secular tailwinds that position us to outperform. Megatrends around sustainability, digitalization, and rising energy demand are intensifying the need for our systems and services.

Through breakthrough innovation and the strength of our people, we're delivering superior performance for our customers and advancing a more sustainable future. With our proven business operating system, record backlog and strong demand, we are well positioned to deliver differentiated shareholder value in 2026 and beyond.

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

Operator: (Operator Instructions) The first question today comes from Chris Snyder from Morgan Stanley.

Christopher Snyder: I wanted to ask about the Americas applied orders. Just keeps getting better despite the bar already being very high. I think this quarter, you're up 160%.

I guess my question is, are customers ordering with longer lead times than they were six or 12 months ago?

When you guys look at this backlog, is the delivery schedule meaningfully different versus a year ago?

Just trying to figure if a part of the strength is there's some extension in that lead times.

David Regnery: Look, we have published lead times for all of our products. The published lead time on the unitary could be relatively quickly, in many cases, we have stocked products.

So it could be next day, all the way up through our applied solutions where you could have lead times, say, 30 weeks.

So from a lead time perspective, we're very, very competitive. In fact, we also offer a majority of our applied products, quick shift programs, which if a customer had an emergency, we'd be able to respond to at a premium, but we'd be able to respond.

So that's the lead time side of it.

Now if you're asking when customers are asking for the products, a little bit of a different question. That could be really -- I think in the past, we probably talked about on average, and averages are always a little bit different.

So we would talk about a six to nine months.

In some verticals, we are seeing that being extended. Could be 12 months, 18 months, in some cases for sure, depending on the customer, how much visibility they want us to have to make sure that we make sure our supply chain is ready as well.

So I guess the answer is, if you're asking from a customer standpoint, for sure; it's a little bit longer. Customers want that security that they're going to make sure that we have their order, and we're able to execute to it.

From lead time that we actually publish that we actually can meet demand for customers, that is as it's always been.

Christopher Snyder: I appreciate you highlighting that distinction between the customers' lead times in your own because it does seem quite important. Maybe if I could just follow up on some of the cost/tariff changes that are in the market.

I guess any impact on your back half price expectations in response to that?

Then just maybe more broadly, we hear a lot about difficulty or challenges of producing in the U.S. and others say it's just straight up uneconomical. You guys have proved the opposite.

Can you just maybe talk about the advantages of producing in the United States?

And how have you been able to compete effectively while facing the higher labor costs that come from domestic production?

Christopher Kuehn: Yes, Chris. I'll kick off, and I think Dave will jump in.

But look, tariffs and inflation, look, it's certainly a dynamic environment with many changes since our last earnings call in January. On a net basis, we are expecting more inflation, including from raw materials and tariffs, in the year than was estimated, say, 90 days ago.

We do expect inflation will put some near-term pressure on price costs. However, we expect to manage this for the full year and it's baked into our guide.

I'm not going to size the dollar impact for competitive reasons. However, let me just share some context that I think would be helpful.

We've had an in-region, for-region manufacturing strategy for well over a decade in Trane Technologies. At the end of 2025, we had 21 factories in the Americas. Of that, 20 of those factories are in the U.S., and one factory is in Mexico.

Since then, we've acquired Stellar Energy, which added production in Florida, which we're expanding, and we're expanding capacity with a new site to open later this year in Texas.

So one more thing to add. Over 95% of our products sold in the U.S. are manufactured and/or assembled in the U.S.

So look, we've had a very strong track record to manage through inflation and tariffs, maybe some short-term pressure, but we've got that managing our guide, and we'll continue to leverage our business operating system to mitigate the impact of inflation, including tariffs, over time.

We'll look at mitigating the cost with suppliers. We'll look at alternative sources of supply. Then we'll look at pricing as necessary to offset that cost.

So at this point, I don't want to get ahead of our businesses on price for the year. Our guide was around 1.5 points back in January. It's probably a little bit higher than that, probably closer to two points at the enterprise level now, but we'll continue to leverage the business operating system and mitigate the cost where we can and price where we need to.

David Regnery: Yes. And Chris, just to follow-up there on how we stay competitive.

Look, I'll brag about our operating system.

We are a great operator at Trane Technologies. We like our plants right here in the United States. We like creating jobs right here in the United States, and we do it, and we do it in a very competitive way. And every time I go to one of our plants, I just see all the improvements they're making from the last time I had an opportunity to visit and I just get so excited about what the future is going to look like for our company.

As Chris said, we have over 21 plants now in the United States, and we are very, very competitive, as you can see with our results.

Operator: Julian Mitchell from Barclays has the next question.

Julian Mitchell: Just wanted to start off with a question on operating leverage.

I think organically, it was high teens in the first quarter, and you've got that mid-20s baseline for the year. Maybe walk us through how we should think about the operating leverage playing out through the balance of the year organically.

I suppose the inorganic headwind to that shrinks progressively. Is that the fair way to look at it?

Christopher Kuehn: Yes, I mean in the first quarter, I think leverage is consistent with our expectations.

We did a little bit better in the residential business. We had a bit of a headwind in the impact in the Middle East due to the conflict. You're right, it was around high teens organic leverage in the first quarter.

We do see that improving as we move through the year.

So you can think around the second quarter is in that mid-20s range. Then in the second half, we're in the mid- to high 20s in terms of organic leverage. We continue to see an acceleration in the top line and then conversion to the bottom line in the second half of the year, consistent with our guide in January.

We have even more conviction about the second half of the year and the guide for the year. And a little bit easier comps in residential, growing top line and transport. And we expect to have a very strict business in the second half of the year with the Americas Commercial HVAC executing on the backlog and when customers want products.

David Regnery: Yes. The only thing I would add, Julian, is in our resi business, and we talked about this on our fourth quarter earnings call, we're level-loading.

So where in the past, we would ramp up our factory and over really produce in the first five months of the year and then bleed that down as we work through the peak season. We've changed our playbook there.

So we're level-loading.

So yes, we are taking a bit of an absorption impact here in the first, I'll say, half of the year, but that will obviously come back in the back half of the year.

Julian Mitchell: That's helpful.

Then maybe just a follow-up question on the resi HVAC side of things. Any big differences you're seeing on the one-step versus two-step movement there?

And what's your confidence in terms of that inventory level in the channel?

And any early reads on summer selling season as it's starting out soon?

David Regnery: Good question. I mean look, we're very happy with our first quarter in resi. It came in a bit better than what we anticipated, down mid-single digits.

As far as inventory goes in, look, as we said on our fourth quarter call, we thought it was set properly in the independent wholesale distributor channel. And here we are at the end of the first quarter, and we say it's set properly.

So no change to that. We have the desired inventory levels, and we're optimistic. I mean we -- at the end of the fourth quarter, we felt we could be down 5% on our resi business. We've now modified that. We think it's going to be a flattish year, but we'll see how it plays out. We're only in Q1.

But early signs are we're executing well. We're more bullish than we have been for a while in our resi business. The team there is doing a great job executing.

So we'll see how the rest of the year plays out.

Operator: The next question comes from Scott Davis, Melius Research.

Scott Davis: So look, I want to back up a little bit.

I think last quarter, you talked about the applied orders widening out and beyond just data center. Can you give a little bit of color on that?

What particular markets -- I'm assuming that continued just given the orders up 160% has to be pretty broad-based. But can you talk a little bit about some of the non-data center verticals that were strong for you?

David Regnery: Yes. I mean I think I talked a little bit in the prepared remarks. But yes, it was broad-based, which is always encouraging for us.

Look, everyone should understand, data centers was very strong, okay? Very strong.

However, we had -- from a revenue standpoint, we had growth in the majority of the verticals that we track in, at least in the Americas. We had nine of the 14 verticals had positive growth.

So you could see that this is a broad based. I want to make sure everyone is aware, we have not lost focus on the core or what we call the core, even though data centers are very strong. I'll remind everyone that 95% plus of our account managers or sales force do not call on data centers. They have deep domain expertise in these verticals and that really allows us to win.

So broad-based growth, mega projects continue to grow. Data centers continue to grow. Obviously our order rates continue to grow, and it's going to be a great year for Trane Technologies.

Christopher Kuehn: Scott, I'll add on the backlog. The growth in the first quarter was -- I'll use a little bit round numbers here, around \$3 billion. Of that \$3 billion, around \$1.2 billion was from acquisitions, and of that was around \$1 billion for Stellar Energy.

So that means we had about \$1.7 billion, \$1.8 billion of backlog growth from the core, from organic growth in the business.

So a very strong quarter in terms of backlog growth. We typically have seen plus or minus a couple of hundred million dollars to the backlog in any quarter over the last few years.

So very strong momentum in orders and backlog and the pipeline continues to remain very strong.

Scott Davis: And are you guys operating full out in your factories and your applied facilities right now?

Are you fully capacitized at this point?

Or do you still have a little bit of flex?

David Regnery: Yes. I mean there's flex in some of the factories. Obviously we're operating at a very high level right now.

But capacity is one of those things where everyone is different on how you're defining it, right? Right now the majority of our factories are only running two shifts.

So we certainly have that to fall back on. With that said, I would also tell you that we have expanded our capacity certainly over the last three years, and we have plans to continue that expansion.

In fact, we're making those investments as we speak. Stellar, Chris talked about earlier. We also have expansions going into our -- some of our applied factories as well.

Christopher Kuehn: Yes. And Scott, we did raise our CapEx target for the year. We're generally 1% to 2% of revenue.

We raised it to 2% to 3% of revenue, A, to capture the expanded production in Florida and in Texas for Stellar, and also to make sure we are staying ahead of where we see the growth, especially in our applied commercial HVAC business.

So still targeting greater than or equal to 100% of free cash flow even with that higher CapEx spend for the year.

Operator: We'll take the next question from Andy Kaplowitz from Citi.

Andrew Kaplowitz: So Dave and Chris, obviously data centers continue to be strong. But I'm curious if you look globally, you look at a market like Asia Pac, I mean it's still a tough market, as you said, but you did have, I think 50% growth ex-China in bookings there.

So you see maybe a little bit more broad-based growth. I don't know if it's led by data centers in places like that or maybe in Europe as well?

David Regnery: Yes. I mean data centers are strong globally.

Once you get outside of the U.S., they tend to get smaller in size, but they're strong everywhere.

Look, our Asia team, we're still calling Asia flat for the year. But outside of China, we had some nice growth and nice orders. The team's got a very robust pipeline that they're tracking there.

So we're going to continue to execute. I'm still optimistic that we could hopefully do a little bit better than flattish in our Asia Pacific region for the year. Then the team is certainly executing to that goal as well.

In Europe, look, I mean Europe was relatively strong for us in Q1. I mean orders were up as we expected as was revenue.

So we're not concerned at all about Europe, and that team continues to be very innovative and satisfying their customers in creative ways.

So we're happy with Europe. Obviously in the Middle East, we can all understand what's happening there, and we talked about that in our prepared remarks. But the good news is all of our employees are safe in the Middle East and let's hope that conflict gets over in the near term.

Andrew Kaplowitz: Agreed. I'm curious about your continued outperformance in Americas transport. Pretty strong in Q1 versus the market. I know you expect a recovery late this year, maybe a more gradual recovery than ACT.

But maybe you can talk about why you continue to outperform some of the new products in the market and of the outlook as you move forward there?

David Regnery: Yes. I'll sound like a little bit of a broken record here because we love to talk about the innovation that we're putting out into the marketplace.

The transport markets have been down for years now. I think we all know that. We've been saying for a long time that we're going to continue to invest even in down markets because that's what makes great companies in the long term. And you see some of those innovations and the efficiency of our products, the quality of our products.

You could go out and do a sample of the trucking industry and you'd see the gold star is Thermo King, it's a gold star for a reason. That team will continue to execute. We're seeing some nice signs that hopefully, this market turns around. We're pretty confident it's going to turn here in the back half of the year.

It's late, but 2027 looks like it's going to be a very strong market. If you listen to ACT they would tell you it's going to be a strong market and continue to build through the rest of the decade.

So we're well positioned there. I'll congratulate my team there for execution quite well here in the first quarter.

Operator: Next up is Amit Mehrotra from UBS.

Amit Mehrotra: Dave, I just would like to see if you can talk about what you think your TAM is within data centers and how Stellar may change that. When I think about Trane and data centers, I think large, applied chillers, but obviously there are modular systems now with Stellar and obviously the orders and the conversion is very good.

So can you just talk about what that does for your competitive offering within data centers and really what it does for your TAM?

David Regnery: Yes. Sure.

Well let me start with Stellar, okay, because I think that's a great business, and we're so excited to have it be part of the Trane Technologies family.

Today, Stellar specializes in building modular chiller plants for data centers, okay?

But if we start with the end in mind as to where we see Stellar, think of this as a business that, in two to three years, is a \$1 billion business. Think of it with mid-teens plus EBITDA serving many verticals, not just data centers. The skilled labor scarcity is not unique to the data center

vertical. It applies to all of our verticals, and we know that this is a great solution to help alleviate some of those shortages.

So we're very excited to have Stellar as part of the acquisition. If you look at it today, it's \$1 billion in backlog. I think about half of that shipping here in 2026. Modest accretion in 2026 as we'll be investing pretty heavily there. Chris talked a little bit about some of the expansions, but we're really deploying our operating system.

So we'll continue to deploy that and make a good company an even better company.

And we'll continue to see benefits with our Stellar acquisition well into the future, and we're excited to have it be part of the family.

The other addition that we made was in LiquidStack, which really expanded our offering in CDUs.

So another nice addition that's off to a great start, and we'll continue to leverage that. They also have some technology, futuristic technology as well that we think could be part of the solutions and data centers in the future.

As far as our position in data centers, look, we like our position, right?

We're thought of as the thermal management experts, okay?

We're working with hyperscalers. We're working with other influencers, chip manufacturers and designing what some refer to as reference designs, others refer to as data centers of the future.

But look, we get called on for a reason because of our expertise. And as far as the TAM goes, it keeps expanding.

And the data center vertical keeps moving with innovation, and we keep pushing some of that innovation and developing that innovation. But it's a very, very strong vertical today and it will be a very strong vertical well into the future.

Amit Mehrotra: Great. And maybe just a follow-up to that.

I don't know if this question is for Chris. Maybe if you can talk about data center service revenue and when you expect that to kick in?

Obviously service one-third of the business mix right now. And maybe you can just help us think about how much of that is already data centers and the mix within mix as data center service revenue ramps up as the mix within that mix of service positive.

Christopher Kuehn: Sure. I mean, again, with the end in mind, I mean the service opportunity with the recent last few years' growth in data centers is still well in front of us. We've been in the data center vertical for decades.

So there's been a service component, but it's been one of 14 verticals prior to the last few years with the significant investments there, Amit.

So that's very much in front of us. We think about complex applied systems. They require the OEM to be connected. They require the OEM to provide service and maintenance, and I know the last thing a data center wants is to ever have a fall to go down.

So making sure that those systems and cooling systems are operating efficiently and rotation through the products is obviously very, very important.

And maybe one more thing I'll maybe add on Stellar. Maybe just from a modeling perspective, as Dave said, we expect about \$500 million of revenue this year from Stellar. We had about -- the base of that business that we acquired is around \$350 million of revenue. That was part of our January guide of around two points of revenue contribution from M&A.

We also had anticipated about maybe 25% of growth off of that just based on where data center growth was going in our January guide.

Now in April, we've got the entire \$500 million in our guide. And think of that as probably around \$50 million incremental revenue we got captured in April.

But it's an exciting business. The pipelines remain very strong in that business as well. To Dave's point, we've got a lot of investments to make to take this from a \$350 million business to a \$1 billion-plus revenue business in two to three years.

David Regnery: Yes. Just one other comment on services. I think I've told most of you about our investment that we made here in North Carolina and our training facility. It's really the largest of its kind.

I had the opportunity of the data to speak to a class. And this particular class was there and they were technicians getting certified in data center commissioning, okay?

That's how detailed we are in our training. And I'll tell you, I was so impressed with the talent of our technicians and the excitement that they had on their face. I went home and I told my wife, I said, when I come back -- when I come back next time, I'm going to be a service technician. It's going to be so fun and there's going to be so much growth in that space.

But look, as Chris said, a lot of this data center service works in front of us, and we're making sure we're ready for it. It's going to be a really fun journey here.

Amit Mehrotra: Dave, I think you would make a great technician, by the way.

Operator: Andrew Obin from Bank of America has the next question.

Andrew Obin: There's a lot of conversation about behind-the-meter power and resulting changes in HVAC infrastructure in data centers.

Can you maybe talk about absorption chiller technology at Trane?

What do you guys have?

Do you need to add capacity?

And does technology need to evolve to support behind-the-meter needs?

David Regnery: Look, I think behind-the-meter needs are not only in data centers, I'll start with that, but I'll come back to that. But as far as in data centers, sure, we're starting to see that.

As far as absorption in chillers, yes, that's a technology that has been around for a while, okay?

It's certainly getting some conversation now in data centers. But I would tell you there's a lot of other types of technologies that we're looking at as well that probably have less water usage, and you could get some of the same benefits -- a little bit careful here. But think of it as adiabatic cooling type solutions that we're working on in clever ways.

So that's another one. There's certainly a lot of conversation around direct current in data centers.

So that's another technology that we're doing a lot of work on. All that's going to be in front of us. And if you look at -- and there's a couple of -- some of the larger chip manufacturers that will actually publish some of these reference designs.

It's very interesting to go out and look at some of what our team is working on there, and it's pretty explicit as to what some of those technologies could be in the future. But the behind-the-meter, yes, that's happening.

I would also tell you that we have a philosophy that, that will happen in all buildings, right?

And long term, we believe that all buildings will be smarter. All buildings will be more resilient. We believe that we're going to be part of the solution there with our agentic AI software tools to make buildings a lot smarter.

That's really going to be part of our future growth projections that we have going forward because we know that most buildings waste about 30% of the energy that they pay for. When you can solve that problem, is solving a great problem for the planet from a carbon footprint standpoint. You're also creating great paybacks for the customer.

And you probably heard me say before, it is green for green, right? It's green because it's saving our customers a lot of money, and it's also really good for the environment.

So data centers is one part of it, but don't leave out the core because that same concept is going to take hold there.

Andrew Obin: Excellent. And maybe once again stay on the data center topic. Your client Stellar Energy, can you just talk about how has dialogue changed with customers since the acquisition?

And specifically, your ability to increase your service presence inside data center with these acquisitions. How should we think about that?

David Regnery: Yes. I mean I don't think our dialogue has really changed with the end customers.

We always led with our deep domain expertise. We like direct relationships with the customer.

So that's not new to us. We have the broadest portfolio in the industry.

So we're able to make sure that we're thinking at a system level, not a product level.

So that hasn't changed.

Look, the service organization, and I've said this before, when customers, whether they be a hyperscaler or a colo, when they come and see the capacity that we have within our service organization, you can see their eyes light up because they see the expertise that we have. They see how we train our associates, and they just -- it alleviates a big -- if they had a fear that if something went wrong, we'd be there, that fear gets alleviated very quickly.

Operator: Next, we'll take a question from Noah Kaye, Oppenheimer.

Noah Kaye: Maybe just to go back to transport and the outlook. Maybe just give us a little bit more insight on what drives your back-half conservatism versus ACT. Anything that you may be seeing from the pipeline to drive that?

Or we're just leaving this as upside for the year?

David Regnery: Yes. I mean look, we have several models, okay? ACT as one of them that we use to do our forecasts.

So don't just base everything on ACT. Look, we think it's going to have an uptick in the back half of the year. It's probably the oldest fleet of vehicles that we've seen in a long, long time, maybe 30, 40 years.

These units eventually have to get replaced. They cost too much to operate if you don't. You have the spot rate that's now exceeding the contract rate, which is always a good sign.

We're bullish that this market is going to start to come back. When it comes back, it's going to come back relatively strongly. We don't quite have the same inflection point in 2027 as ACT those. We think they're being a little aggressive there because I'm not sure that the trailer OEMs could respond to that type of an increase.

But we're bullish about -- I think it's going to trough here in the second quarter, and I think it's upside in the back half of the year and really for several years to come.

So this is a great business, and it's had some tough years. But look, having personal experience of running this business at one time in my career, we will continue to be very, very successful in our transport refrigeration business.

Noah Kaye: Yes. Maybe just want to ask about some of the improvements that the company made to the reference design for large-scale data center deployments.

It's a little bit of a piece with your comments earlier on innovation, but there's more of a benefit from heat recovery integration, larger air-cooled chillers. How far in front of the market is this in terms of the innovation trend?

Are you already starting to see this reflected in your orders rates or your pipeline?

David Regnery: Yes. I think you got to take a reference design and think it's probably out there. We could argue whether it's 12 months or 24 months, but it's probably somewhere in between there.

I think you could think of buildings being smarter, I think you're going to see chillers being smarter. We're doing a lot of work around that. And think of it as taking different elements that may not be part of that system today and embedding them in the system.

So having a chiller that knows when to run in a free-cooling mode only, or having a chiller that knows when to run in a vapor compression cycle and for how long. Understanding weather patterns and the impact that they have on these micro grids that are being created here with these chiller farms, and knowing when to cycle which units. That's all part of the efficiencies.

Then you start thinking about the water flow. By the way, they're all closed-loop systems, but the water flow within the system and the velocity and the needs and the pressure.

So there's a lot of complications here, and I'll get over my skis relatively quickly, but I know that we have some smart technical engineers that work with the hyperscalers and the Nvidia's of the world that love to have these conversations.

And little changes make a big difference, and it can have a big impact on the bottom line of a data center.

Operator: Nigel Coe from Wolfe Research is up next.

Nigel Coe: I want to go back to this AI reference design that you've been highlighting, Dave. But before that, I just want to make sure we cover just a couple of guidance points.

The resi outlook for flat for the year, you got flat for 2Q. Seems like on easier comp, the back half looks super easy or rather super conservative. I just want to make sure I understand that.

And I think that ACT did raise the reefer builds for the full year; you're not raising your market outlook.

So just wondering what that disconnect's about.

David Regnery: Yes. Well, I mean I'll start with the TK side of it.

We think that ACT maybe was a little bit -- maybe wasn't very accurate at the end of the fourth quarter.

So them raising their number didn't really change our outlook very much at all, okay?

Like I said, we use ACT. We use other sources including our own internal models.

So we're happy that it's not a negative number for ACT. I think it jumped up; I think it's 6% now what they're projecting. We'll see out of the year unfolds here, but we're off to a good start in the first quarter.

Some of that had to do with timing of some large customers, as I talked about in our prepared remarks. But at the end of the day, we're starting to see some growth signs in Thermo King, which I haven't been able to say in a long time.

So I'm proud of what that team has been able to do.

Christopher Kuehn: Nigel, I'll add on residential.

We took the full-year guide up to about flattish versus flat-to-down 5% in January. Off to a strong start, but it's also just the first quarter of the year, right?

We're just about to enter into the cooling season, calling the second quarter around flattish, and maybe around mid-single-digit growth in the second half.

But I mean our teams are ready. We've talked about inventory in the channel is in a very good spot just like it was 90 days ago. We'll see how the year plays out, but we'll at least like to put it out in this outlook and a lot of confidence in the full-year guide.

David Regnery: Let me know if you need a unit. Okay, Nigel? You could help us out.

Nigel Coe: Yes. Well, I just replaced my unit, but you never know maybe another year or two.

Then just on going back to data center. You mentioned DC power and you seem to indicate you wanted to – you see those as opportunities.

So I'm wondering, do you want to be a DC power equipment provider?

Or are you talking about realigning your equipment to be DC power native. Just want to clarify that.

Then on the AI reference design, to what extent is that helping drive higher content for Trane?

So I'm talking about chillers and the whole integrated unit as opposed to just selling pieces of the puzzle.

David Regnery: Yes. I think on the DC question, absolutely.

We're not going to get into DC power, but we're going to make sure our system can work on DC power.

So think of it like that.

As far as the reference design, look, every reference design I've seen has chillers in it, okay?

I would also tell you that in data centers, as in other verticals, we love to think of it at a system level, and we have the opportunity to think at a system level based on the breadth of our portfolio.

So we're not wed to any particular component within that system. We just want it all to say Trane Technologies at the end of the day.

When we sit down with the influencers in the data center vertical and work on reference designs, we're plugging and playing lots of different products and derivatives of those products that could be in a pipeline of -- our own NPD pipeline for the future.

We're very happy with our position in data centers. We believe that the data center vertical will be strong for the foreseeable future, and we know that we're going to be a big part of that.

Nigel Coe: Okay. By the way, Dave, I'll buy a Trane unit if you come and install it. How about that?

David Regnery: All right. With my new technician skills, I'm ready, man.

Operator: This does conclude the question-and-answer session.

I'd like to turn the call back to Zac Nagle for any additional or closing remarks.

Zac Nagle: I'd just like to thank everyone for joining today's call and wanted to let folks know we'll be around for questions, as always.

So please feel free to give us a call.

Also we're looking forward to seeing many of you on the road here in the second quarter.

Thanks again. Bye.

Operator: Once again, everyone, that does conclude today's conference.

We would like to thank you all for your participation.

You may now disconnect.