

Trane Technologies
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Andrew Kaplowitz:

And we are super excited to have Trane Technologies with us. Again, a mainstay of our conference and we appreciate it. We've got Dave Regnery who is the chairman, and CEO of Trane, and Chris Kuehn, who is the EVP and CFO. So Dave, as I walk over, I think I ask you this question every year, but maybe I'll get a different answer, maybe get the same answer-

Dave Regnery:

If I don't give the same answer, AI will pick up I changed words and start to interpret something.

Andrew Kaplowitz:

That's for sure. But innovation, as you know, has been a focus of consistent outperformance for you guys. Your competitors are always coming for you. So how do you stay ahead and what are the latest investments you're making? How is AI impacting your approach to innovation?

Dave Regnery:

There's a lot there.

Andrew Kaplowitz:

Yeah. Well, I've tried to adjust, adapt, evolve.

Dave Regnery:

I like it. Well, first of all, thanks everyone for coming today. We're excited to be here. Andy and the team always do such a great job at this conference. It's also nice to be in Miami where it's a little bit warmer than North Carolina right now.

Look, as far as innovation goes, it's about consistency. People always ask me, they say, "Well, why are you the innovation leader in the industry?" And it's like, it hasn't happened because of an event. It's been decades that we've consistently invested at a very high level in our company. And it's part of the philosophy as to why we put a model out that says we're going to leverage at 25%, because we want to make sure that we always have the opportunity to invest in ourselves. It's the safest investment you'll make. And as a CEO, I told the group yesterday the same thing, that the easiest decision that a CEO could make, is cut your investments.

Because you know what happens in the short term? It falls to the bottom line. You know what happens to the long-term? And we could define what long-term is, but it's usually not a good outcome. Because you don't have innovation. You start to have a sales force that doesn't have anything new to sell. You start knocking on the door selling the same thing you've sold year after year. And it's a vicious cycle of bad things that happen. So look, we're going to continue to invest heavily in our business, it's core to who we are as Trane Technologies.

I'll also tell you that, it's not just the amount that you invest, it's the process you have around how you invest. We have a gate process that's very detailed that all investments go through, and it really ensures that you're not having do-over loops. So you ask the questions up front, and we've been able to really hone this for a over a long period of time to really get it really exact. So that we know that if we're launching a new product, we're going to hit the mark. We know that if we have an investment that we're making in the channel, we know what we're going to be up against and we're able to really perfect that and really be able to execute at a high level.

As far as what we're investing in, I'd say everything, but that's not the right answer that you're looking for. But look, we're doing a lot with AI right now. At lunch I'll be on a panel, we'll talk more about this. But we're doing a lot on the level five, so think of it at the application side. It's really about how do you make buildings smarter? If you just get your head around how do buildings become smarter and more resilient, and I'll talk more about this at lunch, but you could then understand the investments that we're making in AI.

We're also doing some work with our virtual engineer. It's called ARIA. And remember, our service business is about a third of our portfolio. This virtual engineer makes our technicians smarter every day in front of their customers. It's not just about knowing when you're connected to the assets, what's there, what potentially could be wrong. You could ask a query. So I was with a group of technicians a couple last week, and I was telling them, my mindset here is that I want you to be smarter in front of the customer. Then you could just see their eyes open up like, "Oh yeah, I got it." It's like I have a pressure drop, this is the unit, scan the barcode, goes back, reads the bill of material, knows what potential solutions can help solve the problem if the technician doesn't already know. It's very, very powerful and it's going to make us even a better service company. Although we're the leader in the industry today, it'll make us even better in the future.

That's just a few things. We continue to invest in our channel, we continue to invest in our service organization. Just put in a very large training facility in our North Carolina campus, all built around our technicians, by technicians to help train them. They were telling me when I was visiting this last week, they've already had over 3000 students. This thing opened not too long ago, I think. I don't know when it opened.

Chris Kuehn:

December.

Dave Regnery:

So there's a lot of traction there. We're investing a lot too in apprenticeship programs. The whole thing is about, how do you create career ladders in our organization from hourly all the way through? We have a lot of investments and tuition advancement programs where in the past it used to be if you had an associate that want to continue their education, even at a trade level, it was, "Well, you have to put the money up front. If you get a passing grade, we'll refund you the money." Well, we switched that around and we said, "Now we'll advance you the funds because we really want you to become better as an individual and better for our company."

So just a wide variety. And obviously new product development, we're never going to stop investing in NPD. We consider ourselves lucky because we generate a lot of cash. We have a great organization. And

despite the questions that I get on every earnings call, our model's still going to be 25% leverage because I want to make sure that we have lots of dollars available to invest in ourselves. And you want me to, because it's the safest investment we'll make, and it really creates the long-term growth that we've been able to see for the last five years.

Andrew Kaplowitz:

I thought we were going to set a new target of 35% today. I can't believe it. All right, I'll move on from that. I have about 12 questions in my next one. So I'm going to try to just separate it into one or two, maybe just quick updates on anything you're seeing in Q1, just to get it out of the way. It's obviously shoulder season and residential. We assume no changes down 20%, although furnaces have probably been running pretty hard in North Carolina and places like that. So anything you're seeing on the resi side?

Chris Kuehn:

Yeah, why don't I jump in? We won't provide an update today, but maybe I'll just remind everyone what we did say about the first quarter. We expected about flattish growth in Q1. Think about strong growth in commercial HVAC in the Americas in the seven to 8% range. It's a little lower than what the growth has been in that business the prior quarters, but think about aligning the backlog with what the customer-required delivery dates are. And that's how we came up with the 78% growth. So there are more orders that are turned into revenues and move throughout the year. Think about the second half of 2025 and the inflection of the order growth and our commercial HVAC Americas business, over 30% growth in the second half of '25, much of that being applied systems.

Generally nine months is a good range or average to use from the date of the order to the date of shipment, so that's why that revenue starts to inflect more, Andy, in the second quarter and the third and fourth quarter of the year. But back to the first quarter, why flattish growth? The largest piece would be residential. We guided residential down about 20% in the first quarter. It's really due to the tough comps in first quarter of 2025. That business was up high teens last year. And looking back now, could it be from a few different reasons, probably a pre-buy ahead of the refrigerant transition and maybe a pre-buy ahead of tariffs coming into effect. That's really the drivers of the outperformance a year ago. So think about those being the two biggest drivers. We'd expect about mid-single-digit growth in EMEA and our Asia business would be around flattish for the first quarter.

Andrew Kaplowitz:

It's helpful, Chris. Dave, we'll definitely get to data centers as I know you're aware, but you-

Dave Regnery:

I have a bet with someone as to how long it will take....

Andrew Kaplowitz:

How many times we're going to say it? I didn't get to it yet.

Dave Regnery:

How long it will take for Dave to say... Very strong in the data center vertical, but go ahead.

Andrew Kaplowitz:

You haven't won yet. So you talked about 12 or 14 verticals growing with retail turning around and office coming back. So maybe just from your perspective X data center, would you say the commercial HVAC is better this year than last year? How do you-

Dave Regnery:

Better 2026 versus 2025?

Andrew Kaplowitz:

Yeah.

Dave Regnery:

Look, we're growing in 12 or 14 verticals. I'm not sure the market's growing in 12 or 14 verticals. It's really because we stay focused on all verticals. I know the hype is around data centers, so I'll bring it up. It doesn't count towards my bet.

Andrew Kaplowitz:

Wait, I think you lost...

Dave Regnery:

It doesn't count towards my bet. But look, I was telling the group earlier today that 95% plus of our account managers or sales associates, which are all direct, never call on data centers. Never. They're calling on what we would call our core verticals. And they have so much expertise in those verticals that we capitalize on the opportunities that exist. And the deep domain knowledge that they have in these verticals at a local level is extremely impressive.

If you ever been to one of our sales offices, they'll do deep dives into verticals. I mean, I don't know all this obviously, right? Because they do because they live it every day and it really allows us to capture the opportunity. Look, we were very strong in the fourth quarter in data centers. We were very strong in higher ed, we were very strong in retail. I'm not sure retail's come back. We were very strong. We were very strong in office. And you could look at vacancy rates, we were strong in office all year long. So we'll see what 2026 brings. But I'm optimistic about the capabilities that we have within our channel and the strength we have in that channel to go find opportunities. And maybe there are some companies, I don't know if this is true, that are just running after data center business. That's fine because we'll give them a fair run. But we're also going to stay focused on our core verticals.

Andrew Kaplowitz:

You're kind of leading me in your answer, but is there anything that changed in retail for that to turn or it's just what your penetration is? And then you've taken us to, 55 Water Street, so we know why office can be strong for you because you've got the best sales people, but the duration of that.

Dave Regnery:

Yeah. The retail is a broad-based vertical. So it's not like a mega project that's going to change retail. It's across the country, and it's a lot of groundwork, and it just goes to the strength of our channel.

What some people don't realize is I tell people we have a direct channel, and they're like, "Okay, so they have an account manager, sales associates that call directly on customers." Yes. But they call on all five

influencers within a sales process. So they'll call on the end user. They'll call on a general contractor. They'll call on a mechanical. They'll call on an engineer. They'll call on an architect. Do you know how much architects and engineers buy? Pretty close to zero. Other than maybe the building they reside in.

Why do you call on them? Because you want to become the basis of design. You want them to understand the capabilities that we have in our portfolio. And when they do, that becomes the specification. And when you have it specified, that tends to start everything else moving. If you do not have a direct sales force, you may or may not call on all those influencers, but I would tell you that when you do, your probability of winning is very, very high. A group earlier ... was the most undervalued piece of trained technology, the power of our channel, the power of our channel. Whether it be on the commercial side or whether it be in our service business, it's the power of our channel.

Andrew Kaplowitz:

So I am going to bring up data centers now. 120% commercial HVAC, Americas order growth. We saw it across our sector to some extent, at least the companies that are well exposed. So based on the conversation of the customers, I guess we wonder about the sustainability of the recent surge. How do you think about that? How should we condition ourselves?

Dave Regnery:

I'm not sure 120 is going to repeat itself all the time, but I will tell you that the pipeline is very strong. I said that at the end of the third quarter. I've been in this industry a long time. I've never seen a pipeline like we have right now. I said at the end of the third quarter; I said at the end of the fourth quarter; there is a lot of activity that's happening. And I know everyone will point to data centers, and that's certainly very, very strong. But we see activity in many verticals; high-tech industrial, some of the re-shoring activity that's going on. We see some nice mega projects that are working in pharma, which is nice to see because life science has been down for a while.

So look, it's broad base that we see, and we have a lot of activity that's out there. So it's very bullish for us, at least on our commercial HVAC. And Europe. We haven't talked about Europe. But Europe, look at the inflection we've had in the last two quarters of the year. Our order growth was what? High teens?

Chris Kuehn:

Yeah. Yeah, high teens.

Dave Regnery:

High teens. Our backlog going into the year in Europe for commercial HVAC is up 40%; four zero. And I would tell you that one would argue the markets in Europe are not that robust, and they may be right, but we're doing very, very well there. A lot of that has to do with innovation. A lot of that has to do with the strength of our channel.

Andrew Kaplowitz:

Is it also the data center wave moving over there?

Dave Regnery:

We certainly have data centers. Look, Chris, will comment as well, but we'd certainly have data center business on a global basis. So don't just think it's North America.

I would tell you the size of the data centers in Europe are much, much smaller than what we're seeing here in the States. Maybe 1/10th the size. Now, there is some pipeline activity that is working that you have larger 350 meg data centers that are being planned, 300 meg data centers. But we'll see how that pans out. We'll see if the permitting and the power supply actually comes to reality.

I don't know if Chris, if you want to add anything?

Chris Kuehn:

I think you got it.

Dave Regnery:

Okay.

Andrew Kaplowitz:

So I asked you this question in the beginning about how do you stay ahead of competition, but particularly in data centers. It's one of the fastest pace in terms of innovation. Obviously, liquid cooling, higher power densities. So maybe talk about what you're doing now to stay on offense. I think it's not lost on me that the power of your channel and your Salesforce helps you too and service as well.

Dave Regnery:

Yeah. Data centers is a little bit different because it's such a small population of customers. I'm not allowed to, but you could probably all guess the hyper-scalers, and you could probably even guess at least 50% of the COBOs that matter. So others are able to have a direct Salesforce there as well.

I would tell you that maybe a little bit of a differentiation that we bring is within our core verticals. We always think of everything at a system level. So it's not just about a product. We're selling a solution. And if you've ever listened to one of our earnings calls, I will guarantee you one of the questions will come in, and we'll say, "How'd you do in unitary?" And I'm always like, "Chris, answer that," because I'm not sure exactly how, because we look at it as a solution.

Like this building here. If I told you how this building was configured, you'd sit there and say, "Okay, does it matter? We're just really concerned about the outcome. Did I sleep well? Is it comfortable? Is the space the way I expected? Is the air fresh and clean to breathe?" That's what you'd care about. You don't care about the fact that it's a chilled water system that's using an air handling system, it's located the third floor, and you're trimming the perimeters with VRF systems. But you wouldn't care that way. Well, in a data center world, we bring that thermal management system to the table.

So yeah, we're all working with the hyper-scalers. Many of us are working with other influencers, like chip manufacturers or some of the larger COBOs. But what we'll do is we look at the trade-offs that exist within the thermal management system. And there are trade-offs that exist. So, for example, if you're using liquid cooling with cold plates, you're going to remove the heat at the source, at the chip. So therefore less heat gets where? In the data hall. So what do you need less of air handling?

We have other customers that are looking at, "Hey, look, we don't want to necessarily have CDUs, or cooling distribution units. We want to develop a system that goes from chiller to plate." Okay, let's talk about water purity. Let's talk about deionized water. Let's talk about stainless steel piping. That's a solution.

So if you go across, don't get fixated on one particular part of the thermal management system. Look at the entire thermal management system where you're going to find opportunities.

You'll hear a lot about, well, 800 DC. Sure, yeah, we've heard it too. We're part of that conversation. A lot of heat. You hear about chiller farms. Because remember, a hospital could have three chillers. A data center could have 200 chillers side by side. You take 200 chillers, and you start rejecting heat all at the same time, you know what you create? A micro environment. That micro environment could be 20, 25 degrees F hotter than the ambient temperature right next door. How do you utilize free cooling in that environment? Are there some chillers that maybe free cooling is more applicable to it at certain times of the day based on maybe how the wind blows? So, those are the kinds of things that we would bring to the equation. And little things mean a lot in the data center world. People sometimes in a building, if I talk to you about saving energy, because you're wasting 30% of it, people will say, "Well, that goes to my income statement." In a data center world, it's really positioning it to how I could do more computing because that's where the value's being generated

Andrew Kaplowitz:

Helpful. So I'm going to open it up to the audience in a second, but this next question is definitely for Chris because it's about unitary.

Chris Kuehn:

Nice.

Dave Regnery:

I think we did well.

Andrew Kaplowitz:

Yeah, there you go. You did out-perform the market in '25 in unitary, but you're forecasting relatively flattish growth, I think, in '26. So I would assume unitary is just kind of going to be smaller versus your applied business given ... I know Dave's going to remind me there's a gray line ... all that kind of stuff. But how do we think about unitary, why you're outperforming, and let's call it in the smaller boxes?

Chris Kuehn:

Yeah, last year, I think of unitary growth in that low single-digit range, flattest to low single digit. We're thinking about that the same way for 2026 in this guide we put out a few weeks ago. Lead times are back to normal. We're ready with quick-ship programs. And so we are in really good shape for what that season's going to look like. And emergency repair is a big part of unitary.

What I would add is in our commercial HVAC business, the way we've described it is 50% equipment, 50% service. And then traditionally, of the 50% of equipment, it's been about half applied, half unitary.

More recently, it's indexing a little bit more to apply. It's maybe more in that 60, 40 range, plus or minus. No surprise, just given the strength of some of the verticals that are out there.

But to Dave's point, we understand the tonnage ranges that would fall in traditional unitary. We do think about it as a system approach, and we're not there to oversell on unitary product versus applied. It's about what's the right solution for the end customer at the end of the day.

Andrew Kaplowitz:

Yeah. Helpful. Any questions from the audience? Anyone? We had a question on the last session. I was like, wow. All right, so let me keep going.

Andrew Kaplowitz:

So on price versus cost, you said, I think, Chris, correct me if I'm wrong, one and a half percent of price this year, kind of more normalized, 20 to 30 base points of price versus cost. But obviously there's questions. There's questions about resi pricing for you guys, but I think the complexity of the business is getting more, so pricing kind of gets lumped in there and commercial strong. So what's the conviction level to deliver 20 to 30 base points of price versus cost? Any more color around pricing?

Chris Kuehn:

Let me step back. The last five years have been fairly dynamic as we've worked through COVID to supply chain challenges, to now ultimately refrigerant transition in the resi space in 2025, and I think the strength of the company's business operating system to manage through identifying cost inputs, which we know well, how do we ultimately hedge for those inputs where we can, and then making sure we can price effectively so that we get that spread. I think the company's had a very strong track record in that regard and we'll remain dynamic that way, Andy.

Yeah, a few weeks ago in our earnings call, we guided to about a point and a half of price for 2026. At the time, the residential business had not announced their price increase. They since have. It's an up to 5% price increase, effective April 1. I think though we'll probably net in the couple of points range there. It wouldn't necessarily be on the top up two, it would be probably a couple of points.

But pricing is led by innovation. And to Dave's opening point here, when you keep investing in your products and you've got new products to sell to customers that are more efficient than even the previous generation from one or two years ago, not 20 years ago, but from one or two years ago, that's an easier conversation to have with the customer. And then leading with payback. A lot of confidence on the point and a half for the year, but we'll remain dynamic. As I said on the call, I hope that 2026 is a more stable year in terms of those cost inputs, but we will remain flexible to make sure we drive for that 20 or 30 basis points about performance on price costs.

Andrew Kaplowitz:

Got it. Helpful. And I have a question here on geography. We already talked about North America and EMEA, so maybe just APAC. Flattish in Asia overall, but maybe discuss visibility. How should we think about what's going on in rest of Asia versus China?

Chris Kuehn:

Yeah, you want me to start?

Dave Regnery:

Sure, go ahead.

Chris Kuehn:

Think of the Asia segment. It's about 6% of the enterprise revenue. Half of that revenue, three points would be, 3% would be in China, 3% would be rest of Asia. We're seeing China remain choppy in terms of the markets that we serve. And these are non-res markets, just to be very clear, that we serve in China. Choppy markets. We're expecting China to be down again in 2026. We're expecting growth in rest of Asia and overall net on a flattish basis.

But I would just remind listeners here that about a year and a half ago, our team in Asia made the decision, and Dave and I said, "Yes, we agree." They wanted to make sure that they had a more focused customer base that they were going to sell to in China. Mechanical contractors, or end users, they're two different classes of customers. Mechanicals would be more thinly capitalized and not uncommon to see the project that you've just sold to them they're trying to pay with the next project. That's not the best outcome in terms of getting cash in. End users where we can ultimately go direct to them and understand what their usage is going to be, that's a place we want to go focus. That helped contribute to some of the declines in China, but I think it's bolstered the business there to make sure that you got high confidence in the collection cycle all the way to the end.

Dave Regnery:

Yeah, we have a great team in Asia.

Chris Kuehn:

We do.

Dave Regnery:

We really do. And you could look at their margins. They're controlling what they can control. We made a decision, we're going to be pretty selective on some of our customer base in China. We believe that's the right, prudent long-term decision and the rest of Asia is performing quite well. We'll see how 2026 pans out, but right now we have it called flattish. That's what we have in our guide.

Andrew Kaplowitz:

That's helpful, Dave. And it was nice to hear that you guys thought that resi channel inventory largely normalized heading into 1Q. Maybe discuss confidence around that. I know you talked, you give a guide at flat to down 5%. Any risks, upside, downside? How do you think about it? You guys got good-

Dave Regnery:

Look, we do a lot of work with our independent wholesale distributors and just remind everyone, think of our resi business with 15% of the enterprise. Think about half of that is through independent wholesale distributors. The other half we act as the wholesale distributor. We're talking about this 7% or so part of the business. It got overstocked. It just did. First quarter last year, we didn't really see the fact that there was a pre-buy happening because of tariffs, but it happened.

Then we had this refrigerant change that didn't go very well for the industry. I'm sure everyone's aware of that, so I won't rehash it. And then we had a very short selling season. All the potential avenues to burn off the inventory in 2025 really didn't happen. We knew that we had to make a decision in the fourth quarter. We had to take down production. It's not an easy decision. There's a workforce on the other end of this. We took a third of the days out in the fourth quarter. We wanted to get it behind us. Based on our intelligence working with our independent wholesale distributors and understanding their inventory requirements and their levels, we believe we're in good shape going into 2026.

We had to get this behind us. And we believe it's behind us. We're looking forward. 2025 was an abnormal year for res, and I know I hear all the, not all, I certainly have heard some of the dialogue around, it's structurally broken, the business, though it's been a pull forward for the last three or four years. Let's see how the year plays out, we don't share those views. We think that long-term this is a GDP plus business. We've been saying that, Andy, for a long time. And over the long term we've been correct. So let's see how 2026 plays out. Right now, we're calling it flat to down 5%, but we'll have a better indication as we start getting into season.

Andrew Kaplowitz:

Got it. And just to get into the transport business for a second. Remind us how big it is. I think last time I remember was like 15%, but maybe it's something like that.

Chris Kuehn:

Globally, it's probably a little less than 15%. Round down a little bit, you'd be right.

Andrew Kaplowitz:

Yeah. I keep asking you every year how you're outperforming. One of these years you're going to give me even more, but maybe talk about '25, '26, how you're outperforming? Obviously a ACT gives us forecasts. They tend to change them. How are you feeling about the transport business?

Dave Regnery:

Last year I said the same thing. I'm optimistic on the back half of the year. I know the first half's going to be tough. I could see what's coming at us. But I'm optimistic about the back half of the year. This is a great business. Now, maybe I'm a little bit biased because I ran it for several years, earlier in my career. But this is a business. When it comes back, it's going to come back very strong.

And there's some fundamentals that will tell you it will come back. These units are getting older. They're probably the oldest I've seen in a long time. They cost more money to run, when they're older. I don't believe that the amount of perishables have gone down, that are being transported. I do believe there was an overbuy with COVID that is just a long time to work through. These are usually 18 month down cycles. This has now been four years. It will come back. We're starting to see some signs of that.

I talked to some of the trucking companies because I know them well because I ran this business at one time. They're starting to get more optimistic, but we'll see how the year progresses. It will be a back half though. It's not going to be the first half. I think the first quarter the market is forecasted to be down 20%. I think we'll do better than that, which we've been able to outperform in the past.

I'm pretty confident in that statement. But it's a good business. This is another business too, by the way. We're using a lot of AI. These are assets no different than a trained commercial unit. It's just these assets tend to move around, which is a problem, but an opportunity. Because if you know where the assets are and you know what potentially could go wrong, you now start to direct the driver to where the solution exists based on inventory levels and for particular parts.

It's really cool what we're doing there. It's going to come back. We've invested heavily in the innovation and when it comes back, we'll be more than ready. One of the things we've also done here is, in Europe we developed an actual power generation and removed the engine from the TRU, which sounds novel, but it's really cool because what it's using is kinetic energy. If you remember your engineering school.

It's basically harnessing, think of the volume and the mass going down the road and how it harnesses that and doesn't put drag on the tractor. Most things that are trying to generate power off of braking, whenever they put drag on the tractor. We've been able to put that to a very diminish level. It's really exciting. The payback isn't there yet, but we're working really hard on the payback.

And when we get that payback within a certain tolerance range, we believe this will be disruptive to this industry. And again, as an incumbent, we're okay disrupting ourselves. That's why at Trane Technologies, we challenge what's possible and we work towards yes. When you do that, you become a disruptor to yourselves, which is okay. And if you go back in history and look at companies that have disrupted themselves, those are companies that tend to exist for a long time.

Andrew Kaplowitz:

Dave, I know you're not going to change the 25% plus because you just told me again today, but maybe you can just answer this question. Haven't all your businesses substantially improved their margin capabilities since you first set that 25% plus?

Dave Regnery:

We're very happy with our margins. We're very happy with the progress that we've been able to make as a company. I've been in this business since... I'll date myself here, but a long time. Back when I was running Thermal King, it was back in 2010. Then I came in, I ran the Trane business. I would tell you that that wasn't a business that we were very proud of our margins on, especially on the equipment side.

The prior CEO and myself, we made a pact that says if we're going to get better, we're going to do it through innovation. And we invested heavily. And when you have innovation, you could price for it. When you price for it, you start to have margin accretion. And the flywheel just continues. I'm very proud of what we've been able to, really on a global basis. Asia used to have our lowest margins, now they're our highest margins. That's the power of innovation, that's the power of direct sales force. I don't know if you want to add anything.

Chris Kuehn:

One thing I'd add, business operating system that just runs across the entire company. Whether it's finance or IT or procurement or operations and how we walk into a factory, there's a lot of consistency in how those functions or factories are run. And when we think about new acquisitions,

Chris Kuehn:

Which may be below the radar, but over the last five-ish years we've completed 25 acquisitions. We think of it the same way. There's power to what we're acquiring, and we want to learn from those companies that we're acquiring, and let's make sure we're just improving the business operating system where we can help them. Maybe it is on procurement or lean thinking. The key is, we're going to make sure we bring those acquisitions, bring their knowledge in, and also what can we share? And let's go ahead and go drive the margins.

Andrew Kaplowitz:

That's helpful. And maybe just answer this question, where my understanding is as you get a lot of these larger projects. If you do it in a data center, you're going to have a hundred chillers. That can get pretty productive in the factory for you. So that, in itself, can lead to higher incremental margin.

Dave Regnery:

It certainly lends itself to productivity, right? Most applied systems, everyone's a bit different. Either from a centrifugal to an air-cooled, there's a lot of different options that people you wouldn't notice that is difficult to ... Because it's not difficult. You just have to have the right processes in your manufacturing lines to be successful, and we do. But with a data center customer, they have a design for a particular data center. Now it may change a little bit to another data center, but yeah, you're getting large quantities that you could just run these things right down the same line. And we've created lines that you're going to run 103 megawatt air-cooled MagLev compressors down the line, and you could start to really dial in the repeatable nature of that, and be able to create some economies of scale there.

Andrew Kaplowitz:

And you mentioned the strong age of margins. Is there anything structural that happened there? I know you kind of redistributed the business a little bit, maybe is there anything structural that happened there? And conversely, is there anything structural in AMIA that keeps your margin down there a little bit.

Dave Regnery:

Let me talk about Asia. I'll let Chris talk about EMEA, because EMEA is just really about investments. But in Asia, what structurally changed happened about nine years ago when we implemented, or 10 years ago now, Chris, when we implemented our direct sales force, that's what structurally changed, right?

We structurally changed not to just have someone representing our company, but we hired the sales force to represent our company. And when you do that, as I said earlier, you start to talk to all the disciplines that are involved in closing a transaction. And the basis of design. It's called a little bit something different in China, same principle applies. But when you do that, that's when you're able to really create value and explain the value that you're bringing the customer. It's not just about, I'm going to get an engineer to believe me. It's value that's created to the end customer. Being able to explain that is something that oftentimes is missed. You want to about Europe?

Chris Kuehn:

Yeah. Europe in 2025, margins did retreat a little bit. That was entirely intentional. It was investments we made with also a great team in Europe thinking about their front end sales investments that they wanted to make in terms of coverage, especially on the commercial HVAC side.

And then on the transport side, and one business in the commercial HVAC side, we did some very targeted investments to take in some channel. And so think about three now, almost four countries with transport businesses are independent that we've now acquired that distribution back. We're going direct. Opportunities for us where market share wasn't where we wanted it to be. So we can go take up the market share and ultimately the margins. But an investment year in 2025, and a lot of confidence as we go into 2026. The 25% plus incrementals that we start the year with, we look at each of our regions. Okay, America's, AMIA in Asia, all of them are driving to that performance of 25% plus. But the enterprise in 2025 can grow earnings per share at 16% and grow margins and we can still make those investments in EMEA, and now they'll contribute even more to 2026 and beyond.

Andrew Kaplowitz:

Got it. So I got three minutes, so I want to hit two important questions, because you mentioned the 25 acquisitions. I still think it's an underappreciated aspect of you guys. So maybe you can talk about BrainBox a little, but also this pending acquisition of Stellar, and what it sort of does.

Chris Kuehn:

Sure. Well, BrainBox, I think Dave's talked a little bit about it before, but think about digital offerings to make buildings smarter. Okay, we've got some great examples I know Dave can speak to probably better than I in terms of...

Andrew Kaplowitz:

He'll do that at lunch.

Chris Kuehn:

That's true. I don't want to go too far there, but. Early stage technology company that you get to match up with the strongest channel in the Americas, and it's actually got a global opportunity as well when you think about making buildings smarter. So I'll leave that there.

Stellar, we announced that we're going to close on that acquisition. Stay tuned, we said in the first quarter, so stay tuned closely. But a great company in terms of modular chiller design. So think about a pumping station, an electrical system, and a chiller all getting put together in a factory OEM and shipped to the job site. You're reducing complexity of the job site. You're improving quality by controlling that assembly in the factory. And so that'll be ... right now it's a data center focused play, but there's no reason why that can't be extended over to other applied verticals to make it simpler on the job site when you've got a scarcity of a resource for commissioning. And that's one of the things we do really, really well with commissioning with our direct service technicians, but making sure you've got that complexity reduction in a job site. That's a nice acquisition.

Andrew Kaplowitz:

So I would never reject a question, but it's got to be quick.

Speaker 1:

As we're trying to understand whether AI data centers represent structural complexity versus proportion of scaling, are you guys seeing cooling intensity per megawatt increase versus traditional cloud?

Andrew Kaplowitz:

Cooling intensity increasing?

Dave Regnery:

In some cases it really just depends on how the data center's being constructed. Think of the whole thermal management system. You'll have different trade-offs that exist depending on what the use is going to be for that data center. If it's a learning data center, sure you're going to have higher heat loads in that on average, okay? But it really ... Don't think of it over the entire spectrum of the thermal management system, and how you would apply different products to solve a different customer's needs. Don't assume that everyone's using the same chip too. Okay. That's another, I know we talk a lot about one particular supplier's chips, but there's a lot of other chips that are out there too and these could be maybe designed by specific hyperscalers themselves.

Speaker 1:

You mentioned on average. Can you quantify that by any chance?

Dave Regnery:

As far as?

Speaker 1:

I think you were saying the increase in megawatt of pricing?

Dave Regnery:

Look, I think that a traditional data center, you'd be talking about 10 million per megawatt. I think the AI learning data center would be up to 15 to 20, that kind of a delta. If you think of 10 to 15 to maybe 15 to 20.

Andrew Kaplowitz:

Dave, if we could do this in 30 seconds. What are the top two or three innovations and structural changes?

Dave Regnery:

Yeah, I believe AI is going to transform industries, okay? So if you're a CEO, embrace it, right? And I'll talk more about that at lunch. We're investing heavily in that AI for growth as well as AI for productivity. We're doing a lot with our virtual engineer. So that's certainly going to be an opportunity for us in the future.

The other would be, look, this whole demand side management, and the fact that buildings waste 30% of the energy that they pay for, if you think the cost of electricity is going to go up, think about our paybacks increasing. And I think that's a pretty safe bet. If people are wasting 30% of the energy that they're paying for, that's an opportunity. And this whole concept around I need more power on the grid. We need to balance the grid. And if you're wasting 30% of it, that's a big part of the balancing that needs to take place.

And if you think about what you can do with the power of AI, this isn't futuristic. This is today, right? And this is such an opportunity for our company. I'm very, very excited.

I told some people last week, it was like five years ago when I became the CEO of this company, I told everyone we're going to continue to be a great operator, we're going to be an innovator. But I also told them that I wanted to create a growth company. And I know that some of you are sitting in the room today. And you looked at me like, "This guy's a little bit off." And where were we five years ago? We were a 12 and a half billion dollar business. Where are we today? We closed the year at 21.3 billion. We have a compound annual growth rate of over 12%. But I would tell you that I see more opportunities in the next five years than I saw five years ago.

So look, we appreciate everyone's interest in Trane Technologies. It's a great company and it's a great time to invest. So thank you.

Andrew Kaplowitz:

On that note, thank you Dave and Chris.

Chris Kuehn:

Thank you.

Dave Regnery:

Thanks, Andy.