Trane Technologies
Q3 2026 Earnings Conference Call
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Operator: Good morning. Welcome to the Trane Technologies Q3 2026 Earnings Conference Call. (Operator Instructions)

I will now turn the call over to Patrick Uotila, Director of Investor Relations. Please go ahead.

Patrick Uotila: Thanks, Operator. Good morning. Thank you for joining us for Trane Technologies' third quarter 2026 earnings conference call.

Our webcast and slide presentation are available at tranetechnologies.com, where a replay will also be archived.

Today's discussion includes forward-looking statements. Key risk factors are detailed in our SEC filings. We also use non-GAAP measures. Explanations and reconciliations are in our press release and presentation appendix.

Joining me on today's call are Dave Regnery, Chair and CEO; Chris Kuehn, Executive Vice President and CFO. And joining us for Q&A is Donny Simmons, Executive Vice President and Chief Operating Officer.

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

David Regnery: Thanks, Pat, and good morning, everyone.

Please turn to Slide 3. Our focused strategy is aligned to powerful mega trends and continues to propel strong performance.

Today, global energy systems are stretched and building still waste about 30% of the energy they pay for. If we want a sustainable and resilient energy future, efficiency isn't optional. It's imperative. Customers choose Trane Technologies because we solve this problem at scale.

Our smart systems, advanced controls, and deep service expertise allow buildings and industry to optimize their energy footprint in real time. This enables our customers to boost performance, reduce cost and reduced emissions, and help create more resilient energy systems. When you combine this strong customer demand with our leading innovation and talented team, we are well positioned to deliver differentiated long-term value for our shareholders.

Please turn to Slide 4. Q3 was another strong quarter. Enterprise organic bookings grew 20%, fueled by robust growth across all segments.

Our Commercial HVAC businesses delivered outstanding performance with global applied bookings up over 40%, putting our backlog to $12.5 billion.

Organic revenue grew 16%, led by the Americas and with growth across all segments.

Our Service business which represents about a third of enterprise revenue, continues to be a resilient growth driver with low teens compound annual growth rate since 2020. All in, we delivered adjusted EPS growth of 25%. This includes a tax benefit of about $0.10 due to timing, excluding this tax benefit, our underlying adjusted EPS growth is up 23%.

We also delivered exceptional free cash flow, reaching $2.8 billion year-to-date and now expect to deliver free cash flow greater than 100% of net earnings for the full year. Given our robust backlog, strong pipeline and proven execution, we are raising our full year revenue guidance and reaffirming our EPS guidance.

Please turn to Slide 5. Our third quarter results were driven by standout performance in the Americas segment. Commercial HVAC delivered exceptional bookings, up low double digits and strong organic revenues up low 20s.

As expected, Applied Solutions revenues ramped significantly with growth exceeding 60%. Services in the Americas continues to be a key growth engine, up 10%. The Residential business exceeded our expectations with both bookings and organic revenues up approximately 20%. Our Transport business also gained momentum with bookings up in the high 30s and revenues up high single digits.

In EMEA, our performance was solid and in line with our expectations. Excluding the Middle East, segment bookings were up over 50%, and revenues grew high-single digits. Our team in Asia Pacific delivered strong results outside of China, with bookings in the rest of Asia, up 70% and revenues up in the high teens. China now represents a third of our Asia Pacific segment.

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

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 6. As Dave highlighted, enterprise organic revenue grew a strong 16%, supported by robust equipment and services growth. Adjusted EPS increased 25%, underscoring the power of our business operating system.

We are capitalizing on unprecedented demand which has created near-term supply chain and inflationary pressures that we are actively mitigating.

A prime example is our recent acquisition of Cancoil, one of our key suppliers, which strengthens our supply chain and bolsters our heat transfer expertise. Leverage in Q3 improved versus Q2, and we are confident we will see further leverage improvement in the fourth quarter driven by both higher price and productivity.

Please turn to Slide 7. Our third quarter performance reflects solid execution in a dynamic environment and strategic reinvestment for future growth.

Operating income margins in the Americas expanded by 50 basis points on strong volume growth that helped offset inflationary and supply chain headwinds.

In EMEA, we delivered solid performance in Europe, with segment margins impacted by the continued conflict in the Middle East. Excluding the Middle East, our Commercial HVAC business leveraged above 25%.

The Asia Pacific margins were impacted by challenging markets in China, balanced by notable strength in the Rest of Asia.

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

David Regnery: Thanks, Chris.

Please turn to Slide 8. Commercial HVAC Americas continues to set the pace with another quarter of exceptional bookings and backlog. Data centers continue to be a powerful driver and our core markets also remain strong. Year-to-date, we delivered growth in 11 of our 14 verticals. As a result, we are raising our full year Commercial HVAC organic revenue outlook.

In Residential, we are also raising our full year outlook, reflecting our strong year-to-date performance. Transport markets continue to show improvement, and we expect strong revenue growth in the fourth quarter leading into a 2027 recovery.

In EMEA, we continue to expect flattish organic revenue growth for the full year, with Commercial HVAC offsetting headwinds in the Middle East and Transport. In Asia, we expect strong demand in the rest of Asia to offset challenges in China.

With that, I will turn the call back to Chris. Chris?

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 9. For the full year, we are increasing our organic revenue growth outlook to approximately 11% and reaffirming our adjusted EPS guidance range of $15.20 to $15.30.

For the fourth quarter, we expect organic revenue growth in the mid-teens, with adjusted EPS of approximately $3.40 to $3.50. This includes a $0.10 headwind from a higher fourth quarter tax rate which neutralizes the third quarter benefit and keeps our full year effective tax rate forecast unchanged at 19%.

Looking at the balance of the year, we are updating our full year price realization expectation from 1.5 points to approximately one point, primarily reflecting timing and mix across our shorter-cycle businesses. We expect price to accelerate in the fourth quarter to approximately 1.5 points at the enterprise and close to two points in the Americas segment.

We now expect organic leverage to land in the low 20s an adjustment from our prior expectation of 25% plus, primarily due to the updated price expectation and near-term supply chain and inflationary headwinds, all of which we are actively managing.

Please turn to Slide 10. We remain committed to our balanced capital allocation strategy which is focused on deploying excess cash to maximize shareholder returns.

First, we strengthened our core business through relentless and strategic reinvestment.

Second, we maintained a strong balance sheet to ensure optionality as markets evolve. Third, we are on track to deploy 100% of excess cash over time.

Our disciplined approach includes pursuing strategic M&A to enhance long-term returns and executing share repurchases when our stock trades below its calculated intrinsic value.

Please turn to Slide 11. We now expect to deploy more than $3.4 billion in 2026, exceeding the high end of our prior range. A key pillar of this strategy is our commitment to shareholder returns. Earlier this year, we increased our dividend by 12%.

We also repurchased approximately $1.4 billion of shares year-to-date with significant share repurchase authorization remaining.

Our M&A pipeline is active. During the third quarter, we committed to three strategic acquisitions including Cancoil which we expect to close in late 2026 or early 2027. We now expect CapEx of approximately 2% of revenue in 2026 which will further bolster our strong free cash flow and balance sheet position.

And with that, I'll turn the call back over to Dave. Dave?

David Regnery: Thanks, Chris.

Please turn to Slide 13. In Americas Transport, we are seeing positive signs after a multiyear downturn. Preliminary discussions with customers have been encouraging and we believe that markets will continue to improve into 2027 and enter a multiyear up-cycle.

Please turn to Slide 14. While we'll provide formal 2027 guidance on our fourth quarter call I'll share an early view based on current insights.

Globally, Commercial HVAC remains very strong, led by our innovation and direct sales force with backlog up more than 70% from the prior year, we are well positioned for strong growth in 2027.

For Residential, we will be exiting 2026 with normalized channel inventories and stronger momentum than the year before. We will be monitoring the interest rate environment and other economic indicators as we move into 2027.

In Thermo King Americas, as discussed, we expect market conditions to strengthen through 2027. Services, representing one-third of our business remains a resilient growth engine powered by our expanding applied installed base and digital Energy Management Solutions. Underpinning all of this, our business operating system continues to drive productivity while navigating inflation and supply chain dynamics.

In short, we are well positioned for strong performance in 2027 and beyond.

Please turn to Slide 15. In closing, our strategy is aligned to powerful megatrends that are intensifying the need for our sustainable solutions and services. Customers choose Trane Technologies for our leading innovation, strong execution and the expertise of our team around the world.

With our clear strategy, elevated backlog and booking strength across all segments, we are confident in raising our full year revenue guide and well positioned to deliver differentiated shareholder value.

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

Operator: (Operator Instructions) Your first question comes from the line of Andy Kaplowitz with Citi.

Andrew Kaplowitz: So Dave or Chris, maybe just a little more color on what you're seeing in terms of the competitive environment in Americas Commercial HVAC.

Obviously orders in the Americas were still good in mid-teens, but it did decelerate from Q2, and I'm sure you're going to tell me data center orders are lumpy. But maybe you could elaborate on what you see in terms of the visibility toward continued strong order growth in Americas Commercial HVAC?

David Regnery: Yes. Andy, it's a fair question.

Yes, look, they are lumpy. I think you know that. But look, I think that the pipeline of activity that we're seeing is still very, very robust, and that's very encouraging to me.

So I know I've read some of the pre-reports and I know that there's some conversation about orders are slowing.

Let me tell you something, we're not concerned about orders slowing, in fact, the pipeline continues to grow. We're seeing that not only in the Americas, but we're really seeing that around the globe.

When you and I were together a few weeks ago, we talked about Europe, and I told you that we're seeing a strong pipeline there. I'm happy to say that some of that pipeline converted to orders. We actually even had more upside than I thought there with orders where, if you exclude the Middle East, they were up over 50%, and we had very strong orders in the rest of Asia.

To me, the order rate was a positive, and the pipeline remains very, very robust. And just to reiterate, yes, the data center orders we will be more lumpy and they're larger than what we would see in our core business

Andrew Kaplowitz: Then, Chris, I know you lowered your incremental margin guide for the year a bit. But your Americas incremental margin was just south of your 25% long-term target.

So maybe you could give us more color in terms of the price cost dynamic that you're seeing.

Have you been more aggressive with pricing in your Residential business?

And how are you thinking about your ability to get back to that 25% normalized incremental in '27?

Christopher Kuehn: Andy, no change to our long-term framework here of 25% or greater. There are some impacts this year in terms of navigating through a little bit lower price than we expected. And let me spend a moment on that.

Look, comps matter in the third quarter, we delivered over three points of price last year at the enterprise and actually the Americas delivered over four points of price. In our Residential business, we're still experiencing some of the impacts of the transition of the 454 billion product.

Just a reminder, we account for that price actually in volume. That normalizes next year, but that's part of the story here for 2026. And pricing did come in a little bit lighter in the third quarter than we expected, and it's really due to time and mix in our short-cycle businesses.

I'll give you an example or two. Residential had a very strong quarter up 20% in terms of revenues in the third quarter. When you think about incentives in the IWD channel, as you have higher volumes, there are more incentives there.

So we wound up not expecting as much growth in the third quarter Residential that we delivered, but the incrementals on the incentives wound up just being a little bit of a headwind on price.

On the mix side, our Transport Americas business delivered 10% revenue growth in the quarter, and we saw the mix to the larger fleet customers which with the larger volumes that they buy from, they get a little bit better pricing for that. The good news is that's typically the start of the uptick of the cycle, as the larger fleet starts buying earlier.

So again, on the way we account for it on price a little bit lower than we expected. But I'll tell you going into the fourth quarter, we're expecting price to be stronger than the third quarter. Think of that around 1.5 points at the Enterprise, closer to two points at the Americas segment, and we're putting all of our plans in for next year as well.

David Regnery: And our incremental leverage in the fourth quarter, we're projecting to be north of our target range.

Operator: Your next question comes from the line of Scott Davis with Melius Research.

Scott Davis: Hi guys, Can you hear me okay?

I'm glad you can hear me. On the last call I seemingly was on mute, I guess.

But anyways, I'm confused. Are supply chains getting worse or better? They almost feel like getting worse.

Is that just … maybe just how we're seeing it, but what are the remaining bottlenecks?

And how are you guys seeing it?

David Regnery: Yes. I'll start. We did see supply chain headwinds build as we move through the quarter. However, I will tell you that our team has done a great job of managing through this.

Some of this is caused, but -- some of this was caused by what I would call ordinary supply and demand constraints. As we ramp up demand on our suppliers, specifically around fans, coils, heat exchanger, we're putting a lot of demand on our supply partners.

Obviously they're trying to expand their capacity. We're working with them helping them become great lean operators, but it is putting stress on them.

I think that's going to continue- I know that will continue in the fourth quarter. We'll see that get better as we work through the first half of 2027.

Also in the quarter, though, we had to navigate some sudden regulatory changes in early August. I'm not sure if you're aware of this, but more than 40 companies were added to what they call the UFLPA list.

So this is a list that blocks goods tied to where there's perceived forced labor from entering the U.S. And unfortunately, in our case, one of our lower-tier suppliers -- so think of this as a Tier 4 to us, maybe even a Tier 5.They make capacitors and they sell to some of our motor suppliers as well as some of our drive suppliers.

What that did was it caused them to have to pivot and find another source. Well, they did that in the quarter; unfortunately caused us to have a couple of weeks where we didn't have supply. These both drives and motors are components that we are – are just in time for in our manufacturing locations.

So we had three or four of our plants where we were running product down the line, and we didn't have all the components. Then we had -- when the components came in, we had to put those products back on the line, and that caused a relatively large disruption as well as a large cost for rework.

The good news there is that's behind us, or at least 80% of it was behind us at the end of the third quarter. As we speak today, it's 100% behind us. That rework has all been done now. Unfortunately, it was unforeseen item that hit us and our team reacted quickly. Part of our operating system is, believe it or not, to run a line without all the components, and how do you do that?

So we acted quickly and implemented that. It just was a cost for us in the quarter, and it's behind us now. But look, those things can happen from time to time. It's really how agile you are to be able to adapt to those. I would tell you with our operating systems we're pretty agile, and I'm proud of what our team was able to accomplish with some pretty stiff headwinds in front of us.

Scott Davis: So Dave, just a natural follow-on.

I mean you announced this Cancoil deal. Is this -- are we going to see other types of transactions like this where you guys really just need to be able to control more around your supply chain and just take that risk off the table, assuming there could be a pretty long up cycle in front of us?

Is this the type of mitigation that we should expect more deals like this?

David Regnery: Yes. Look, Cancoil is a great company, okay?

They've been a supply partner of ours for years. Think of them as manufacturers of coils and heat transfer products. They have a lot of expertise there. This is going to be a nice bolt-on for our company.

So we're going to continue to -- if opportunities like this continue to present themselves, we'll be looking at them. Obviously as a major HVACR player, we're going to get to see lots of opportunities.

But this one in particular, it certainly helps us with our supply chain resiliency, and that's obviously one of the reasons why we jumped at it. And also the expertise that they're bringing to us is also going to help us in other areas.

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

Donald Simmons: Yes. I would just add there, they are a really a great partner of ours. We represented roughly 40% of the volume.

So we're already a major player for them.

So us bringing that in-house is a big benefit. Think of these as very large coils that go into large air handlers and large air-cooled chillers.

So this really does help solve one of our core component issues from a supply chain perspective.

Operator: Your next question comes from the line of Julian Mitchell with JP Morgan.

Julian Mitchell: Dave, good to connect. Maybe just a first question, please, around organic operating leverage.

So I think as you said, that steps up above the placeholder in the fourth quarter.

So maybe it's close to 30% after low 20s in Q3. Just trying to understand the drivers of that and how sustainable that rate is as we look into early next year?

I realize the comp was very easy from the Resi headwinds in Q4 last year. Is that what's helping it or a one-time catch-up on the components shortage reversing?

Just trying to understand how you think about that organic operating leverage driving in Q4 and then beyond?

Christopher Kuehn: Yes, Julian. It's Chris.

So the way you described it, exactly right. The comps are easier in the fourth quarter. When we think about the third quarter leverage last year, it was actually over 50%.

So a tough comp in the third quarter. But it sequentially gets better in the fourth quarter, a little bit easier comps on price. We've announced a number of price increases this year, and that continues to stick. Dave described some of the challenges around supply chain in the third quarter that are behind us now.

So that is not carrying over into the fourth quarter.

And I think at this point, we're looking forward to ending the year on a strong momentum in terms of leverage, and we're putting the plans in for next year to return to the 25% plus algorithm. That's our long-term algorithm for a very long period of time.

David Regnery: The only point I would add, Julian, is number in our -- in EMEA, okay, if you look -- if you take our Commercial HVAC business and you look at the segment level and then remove the Middle East, it leveraged that over 25%.

So it's really isolated as to where we're seeing the issues, the supply chain here for sure. Inflation has been a little bit higher than we thought. Middle East is going to -- next year, obviously that's going to be -- hopefully, that gets resolved, but obviously it's going to be easier comps there. But we're confident in our long-term framework, and that's the important point I wanted all investors to take away.

Our long-term framework continues to be the 25% plus, and we're going to continue to invest heavily in our business so we could maintain the future growth that we believe is all possible for Trane Technologies.

Julian Mitchell: That's helpful. And maybe just one follow-up, Dave, in a way to where you left off on reinvestment. Just wondered, as you look across the business, particularly some of the larger pieces like Applied Commercial HVAC, on the smaller side, Residential. Do you see anything changing in terms of competitive dynamics?

I think Residential, a lot of companies are struggling to get price. Then on the Applied side, we receive a lot of questions about a lot of supply coming on from different manufacturers and could that affect pricing.

Any thoughts on that, please?

David Regnery: Yes. I mean on the pricing side, look, we've been saying this for a long time. As you become an innovative company, right, it helps with pricing.

So we're going to continue to invest in our innovation. We're going to continue to invest in what the future is going to be for Thermal Management System. And whether that's in a data center or that's in our core market, that's fundamental to who we are.

So we're never going to back off of those high investment levels because we know we could always sell innovation to our customers. We can always sell a total cost of ownership. We could always sell efficiency.

So that's our strategy. It's been working quite well for the last five or six years, and it's going to work well into the future as well.

Christopher Kuehn: And Julian, to be clear, Residential delivered positive price in the third quarter, a sequential improvement from the second quarter. It remained a little bit lower than we thought based on the fact that we had much stronger volume growth and that IDBD channel, the incentives I previously mentioned.

But the business has announced two price increases this year, early April effective date, early July effective date. And they continue to take all the cost inputs and leveraging our business operating system to drive not only negotiations with suppliers to ultimately productivity, then to the extent there's still inflation, we'll look at pricing, but just leveraging the business operating system here for that business as well.

But again, sequential improvement in price and we'd expect that to continue to be better in the fourth quarter than in the third quarter.

Operator: Your next question comes from the line of Amit Mehrotra with UBS.

Amit Mehrotra: Maybe this one is for Chris. Just a quick one on Stellar. I know you have $500 million going to $1 billion run rate in '28. Currently neutral to EPS.

What is the normalized margin opportunity?

That's obviously a big ramp in revenue. What's the normalized margin?

And when can that become more meaningfully accretive?

Christopher Kuehn: Yes. No change to the outlook for Stellar for 2026 and around $500 million of revenue, and really neutral on the earnings line.

We described a few months ago on our last call around the investments we saw in the business to scale with volume. One of our large investments in not only the factory in Florida, but also the new factory that's in the process right now of commissioning in Texas.

So continuing to execute on those investments here in the quarter. And we've described it, Amit, as in a couple of years now -- in a couple of years' time, mid-teens EBITDA opportunity.

So we'll see, as we put together our plans together for 2027, the backlog remains very strong. The fundamental theme of modular designs and the need for modular chiller plants on jobsites remains very, very strong. We're putting the investments in place to be ready for a couple of years right now to make it a $1 billion revenue business with mid-teens EBITDA.

David Regnery: And the pipeline remains very strong, the activity we're seeing there within the Stellar business.

And just so everyone's clear, Stellar today is predominantly almost 100% data centers. We believe that, that will continue to be an opportunity, but we believe this will move to our core verticals as well.

We just want to make sure we're ready. That's why we're spending a lot of money deploying our operating system so we could flex more as our customers' needs.

Amit Mehrotra: That's great. And just as a quick follow-up. Dave, I know you talked about the lumpiness of orders, but the decline, at least sequentially in orders in the Americas, was double digits, book-to-bill still above one, but it was down a lot. And you talked about interest rates.

Is it really just lumpiness?

Is that what explains it?

Or are there some non-data verticals that are a little bit also longer cycle that are starting to feel a little bit of this pause on from an interest rate perspective?

David Regnery: No, I would say it's lumpiness.

I mean look, if you look at mega projects, and I know I'm the one who probably doesn't like looking at mega projects, but that list continues to grow. I mean we were -- in the second quarter, we were talking about tracking 1,400 projects. We're tracking 1,700 projects now. Some of those have greater opportunities than other. A lot of those, or over 90% of those are data centers, but there's also some nice high techs in there as well.

So look, it's going to be lumpy, okay?

These orders are quite large. I could -- I am not concerned about order rates. In fact, our backlog now, at $12.5 billion.

Look, we're executing well on the front end of our business. Pipeline is strong. We'll continue to have a bit of lumpiness, but we also continue to see strong order growth.

Operator: Your next question comes from the line of Steve Tusa with Wells Fargo.

David Regnery: Steve, another voice its good to hear.

So glad to hear you again. I saw you on TV the other day. You look great.

Charles Stephen Tusa: Yes. Yes. Not feeling so good this morning, but it's what it is. Happy to be back, for sure.

Just on the backlog, you guys give a figure of what's booked for forward years. I think it was $6 billion last quarter. What's that number roughly around now?

Christopher Kuehn: Yes. It's over $8 billion of the $12.5 billion of backlog, end of September would be for 2027 and beyond, Steve.

So that continues to grow.

Charles Stephen Tusa: Okay. Then if you guys actually reported price mix, if you will, in Resi, I think there's a bit of confusion out there, just the way you guys report. What would price mix have been in the quarter?

Then what are you guys actually expecting for price cost this year, however is the right way to look at that?

I mean are you guys underwater, neutral-ish, a little bit positive?

I assume you're below the 20 bps to 30 bps algo that you usually target?

Christopher Kuehn: Yes. I'll start with your second question.

We've described price versus inflation this year as being a headwind. It was in the third quarter. We're anticipating that in the fourth quarter and the full year, and that is baked into our guide.

We continue to remain nimble here as we think about offsets to inflation. And one of the levers there as we leverage our business operating system will be price.

So we're actively managing that. But I do expect it to be a continued headwind through the balance of this year.

On residential, when we launched the 454B product last year, think of that as the pricing on that was in the high-single-digit range. We've accounted for all of that in volume. That carryover to 2026 is also reported in volume for us this year. If I look at, on a year-over-year basis, we have positive price on those products.

So again, we're accounting 454B initially in volume. On a year-over-year price, it's positive, and that will all normalize as we go into next year.

Charles Stephen Tusa: Okay. One more quick one. There's a lot of hysteria out there about these hybrid ductless products. You guys, I think, have a pretty nice hedge through your Mitsubishi Trane JV. Am I correct about that?

Donald Simmons: Steve, this is Donny. Yes. We do have a partnership there with Mitsubishi that helps us with the hybrid systems. I think a lot of the discussion you're hearing is also around a side discharge outdoor unit. We also have that in our own portfolio as well.

The trend in the marketplace is that. That part of the portfolio is growing, and we would expect that to continue to grow.

David Regnery: With the 20% growth, a lot is growing in Resi, so.

Operator: Your next question comes from the line of Toby Okwara with Morgan Stanley.

Tobenna Okwara: I wanted to follow-up on some of the Service commentary.

I mean it looked like the comp was getting easier quarter-over-quarter, but the organic still stepped down. Is there anything to call out there?

Is it just some time differences?

Or how should we think about it?

David Regnery: Look, our Service business is strong.

I mean if you took the Middle East out of our number, our Service business on a global basis was over 10% again. And as you go back, I think we're back to 2020, I was quoting numbers where our compound annual growth rate is in that low-teens rate.

So this is a very strong, very dependable engine that we have in our company, and it represents approximately one-third of our revenues.

I would tell you that it doesn't happen by accident. We invest heavily in our Service business, whether that be on the training side or that would be the tools that we provide our service techs, so they're the best possible in front of our customers.

Remember, all of our Service technicians are company employees, company trained, and they do a great job every day of representing Trane Technologies with our customers.

Tobenna Okwara: And a follow-up on that piece and also tying into the broader labor side of it. How much does market labor constraints factor into some of the supply chains and inefficiencies you've called out?

And any sense on how hiring and training practices are trending in second half and potentially for '27?

David Regnery: Yes. I mean just so I'm clear, is your question on the Service side or is it on the supply side, or both?

Tobenna Okwara: On the labor side, both for Service and for your own manufacturing.

David Regnery: So on the Service side, I'll start with that. We saw this coming probably, I don't know, I'll say three years ago.

We've developed apprenticeship programs where we're basically developing some of the best technicians in the world in our company. This is a very -- it's registered with the Department of Labor here in the United States. It's a very robust program. Think of it as a four-year program.

Some of it is classroom, some of it's on the job, mentorships. I mean we're really proud of what we've been able to accomplish with that program. We're getting a lot of -- I was at an event recently out in Detroit, and we were actually presented an opportunity to describe this so other companies can learn from what we've been able to do to really promote work in the essential workforce, as it's being referred to as.

So look, we're very proud there. That pipeline continues to grow. I think we have now over 350 in the program, and that number is going to continue to grow.

So that's a good sign.

On the supplier side, that's one I can't really comment too much about it. I'm not -- I don't have that level of detail.

I would just tell you that skilled labor, the essential worker is certainly something that we all need to make sure that we're helping to develop the next set of workers that are going to continue to make the United States and really all of the manufacturers around the world, great manufacturers.

We're participating certainly within our own operations, whether that be in our Service organization or in our plants to make sure that we develop, we create career ladders, and people understand that if you come to Trane Technologies, it's not just a job for a year, it's a job for a career. We want all the employees to think that way.

Operator: Your next question comes from the line of Joe Ritchie with Goldman Sachs.

Joseph Ritchie: So look, I want to focus on some of the announcements you've made recently. You had the successful lab demonstration for 800-volt DC architecture, and then the 250-megawatt reference designs with Stellar.

I'm just wondering, as you talk to hyperscalers, how quickly are these next-generation systems and modular plants moving from reference design to the actual pipeline?

Then also, how does that change your content per facility?

David Regnery: Yes. If I told you the answer to the first one, we wouldn't be here, but no, I’m only kidding you.

Look, we're doing a lot of work with hyperscalers and other influencers. And the 800 direct current system that we were able to demonstrate, okay, that's going to happen, okay?

We could all get varying levels as to the when, okay? I would just tell you that we'll be ready. When we get the right standards developed around that, we're more than capable of delivering that. That's a good thing, right?

In the data center vertical, Joe, and I've said this for a long time, innovation has continued to evolve very, very quickly. I want everyone to know that we're sitting at the table helping to develop the future data centers. They're referred to as reference design or next-generation, but we're there, we're developing it, and it's fun and it's exciting.

On the CDU, Donny, I don't know if you want to comment on that?

Donald Simmons: Yes. So that modular design that we have there is -- I mean your question is how fast will that be adopted.

I mean we've got orders in the pipeline now that we're projecting to be -- to come in for that portfolio.

So it's very positive.

Joseph Ritchie: Great. That's helpful. Then just a quick one on the EMEA margins.

I know that the Middle East is roughly 15% of that overall business. How much of the margin impact that you're seeing this year is coming just from the Middle East situation?

Christopher Kuehn: Joe, it's Chris. Yes, for the third quarter, if you were to think of it as probably 80% plus of the impact of the margins in EMEA are due to the conflict in the Middle East.

It's important to look at the dollars as well as the percentages. So when you look at the dollars on a year-over-year basis, it's around $18 million of an operating income impact lower this year than last year. Of that, I'd say over 80% of it is really due to the deleverage in the Middle East in terms of the conflict.

The other piece of it would be we've done some acquisitions in the region, and we're making some modest investments there to take what I'd call lower-margin businesses and ultimately make the investments to have them grow.

But the Middle East is certainly having a big impact on the segment itself. The good thing is if you take the Middle East out and you look at Commercial HVAC across the segment, leverage is over 25% in the quarter.

So it's executing well and we'll get through. To Dave's earlier point, we'll see what this means for 2027, but it's unfortunately a big impact to the segment.

David Regnery: I'm very happy. Joe, I'm very happy with the order rates that we're seeing in EMEA. That's going to give us a lot of momentum as we move into 2027.

So Middle East will -- obviously the comps are going to get easier there. Chris explained to you how that does have a pretty big impact on our margins there, but we'll get behind that. Hopefully, the world gets behind it and we don't have a war going on.

But the order rates that we saw in the third quarter were very, very encouraging to us.

Operator: Your next question comes from the line of Andrew Obin with Bank of America.

Andrew Obin: Just want to confirm, when you said that pricing in third quarter was below expectations, was that both Residential and Commercial or just Residential? Sorry.

Christopher Kuehn: Think of it really in the short-cycle businesses, Andrew. Think of, say, Residential and Transport were really the big drivers there, and Unitary as well.

So I think about, again, the strong performance in both of those businesses on a revenue side and in the short-cycle businesses in Residential, the higher incentives and in Transport, the mix up to the larger (inaudible) customers really a Q3 impact.

We don't see that repeating into the fourth quarter, but it is having an impact on the full year, and that's why we're expecting pricing for the full year to be around one point, but pricing in the fourth quarter will accelerate versus the third quarter. Think of that as around 1.5 points of the Enterprise and approaching two points at the Americas segment in Q4.

Christopher Kuehn: Yes. Positive price in Commercial HVAC.

David Regnery: The pricing in Q4, Andrew, is going to provide some momentum going into 2027.

Andrew Obin: Then just a follow-up on EMEA, these strong orders.

Is the technology -- because clearly, you're very active with new technology introduction in Europe. But are you seeing any discernible change in attitude towards just HVAC?

Getting a bit of a mixed message. Some OEs are more constructive, that we are seeing some change. After last year's heatwave and some (inaudible) would say, hey, not much is happening. Where do you stand on that?

David Regnery: I mean, obviously, I think, for sure that will have an impact. You're probably going to see it more on the Resi side, maybe then on the Applied segment, but I'm sure there will be an impact there.

Look, Europe, the pipeline of activity is in both core and in data centers.

So it's really both. So we're very proud of what that team has been able to develop and deliver around the innovation.

I think we've talked about this in the past with Thermal Management Systems there, really just changing the game. And in Europe, there's the carbon footprint and how we can really help our customers reduce their carbon footprint is still super, super important, and we have great solutions that we're winning with our customers in really all of our verticals there.

Donald Simmons: Yes. I would add to that, which is a lot of time we talk about electrification of heat.

So you're asking about air conditioning. But when we look at the electrification of heating in Europe is also growing, where then we're able to provide both cooling and heating from the same plant as opposed to having a boiler operation and a chiller operation providing an applied solution to a customer.

Operator: Your next question comes from the line of Noah Kaye with Oppenheimer.

Noah Kaye: So Dave, you've said in the past, we're four years into the 18-month recovery on Transport. It looks like you're finally seeing some inflection there.

So mix issues in 3Q aside, is it still fair to think about the incrementals on that recovery being above the 25% organic average for the company?

And I would assume that partly supports better 4Q organic incrementals, but maybe just frame for us what recovery means.

David Regnery: Yes. Look, first of all, very bullish on our Thermo King business in the Americas. They had order growth over 30%, which is great to see. As Chris said earlier, a lot of that was the large fleets. We tend to see the large fleets jumping faster, okay?

So that's good -- that's a great sign. I would tell you that we also have fundamentals that would say the recovery that act is forecasting, maybe it's not at 28% growth that they have for 2027. It will be a robust number, which is going to be great for that business.

Chris, I don't know if you want to talk about the incrementals?

Christopher Kuehn: Look, as we think about volumes coming up, that will give us a nice opportunity to get strong incrementals on volume.

We're obviously putting all of our plans in place as we think about pricing for next year. The business actually opened up the order book here in October for the first half of 2027. We're remaining very nimble around the cost inputs to think about what pricing needs to be, and they're executing the business operating system.

So look, it should be very much a contributor into next year as we think about 25% or better incrementals as we start and look into every year.

Noah Kaye: Yes. helpful.

Then it looked like the M&A impact to reported leverage was -- actually looks a little better now versus the prior guide.

So maybe just unpack but a little bit for us. Is it more operating profits?

What is better versus your prior expectations given your earlier comments on Stellar?

Christopher Kuehn: Yes. I mean Stellar hasn't changed in terms of the revenue and/or the expectations on bottom-line performance.

We've purchased a couple of other businesses here in the channel, namely in transport, and a few others we mentioned earlier. But a little bit of a lot of small numbers here on the delta.

It will still be meaningful of a 500-basis point delta between reported incrementals and organic incrementals, but we're still seeding these acquisitions with investments, making sure that we've got strong growth going into next year.

David Regnery: And Noah, obviously as the longer we own some of these businesses and we deploy our operating system, we certainly see them improving as we deploy them.

Noah Kaye: So there's maybe some of that improvement already.

Operator: Your next question comes from the line of Nigel Coe with Wolfe Research.

Nigel Coe: Can you hear me okay?

Nigel Coe: Dave, good to hear your voice, I'd say.

So maybe to start off with maybe just a bit more color on '27 as you see it. I know you haven't given guidance, but I'm just curious, of that backlog, how much of that backlog is convertible or shippable in '27?

Then if we do get to a 35,000-unit market for TK Americas next year, 30% growth. How much of that -- how does it translate to an actual segment number for Trane?

David Regnery: Yes. As far as the backlog goes, Chris already talked about this. We've got $8 billion beyond 2027. Some of that is in 2028, though.

So just be aware of that. And remember, our backlog is equipment only.

So there's no services in that number.

On the Thermo King side, look, I don't believe that ACT has a number out there in 2027. I think they're -- I think it came down a little bit. I think they're at 28% growth.

I don't think that's realistic for a lot of other reasons, like basically, can trailer OEMs actually ramp up at that level?

I don't think they can. But I think it's going to be a robust year for Thermo King in 2027, which -- and beyond, by the way. These up cycles don't -- they're not -- they tend to go for a longer period of time.

And yes, you're right, we've been in a trough for a while, and I'm just glad to -- I'm glad to see that trough hopefully ending, and I look forward to reporting our fourth quarter results here in January and hopefully be able to tell you that story is continuing.

Christopher Kuehn: And Nigel, just on the (multiple speakers) of backlog, that's for 2027 and beyond. And as Dave described, there's probably some backlog we're already building here for 2028 that could be over $1 billion at this point.

Nigel Coe: Okay. That's helpful.

Then I'm sorry to be annoying. Just want to go back to the price question.

Obviously, we'll get the price disclosure in about a few hours in the 10-Q. We're back into 50 basis points or so for the enterprise. Based on your comments around Resi and Commercial, if you were to confirm or deny that, that's helpful.

But as Asia Pac last quarter was slightly negative. And just given the margin performance in APAC, I'm wondering if that's maybe gotten a bit worse, and I'm thinking of China perhaps.

But any comments on that would be helpful.

Christopher Kuehn: Yes. I'll share with you the numbers you'll see.

I mean for the third quarter, you're right. Enterprise was around 50 basis points. Americas was up about 60 basis points in price.

So positive price in the Americas. To my earlier comment about Transport and the mix to the larger fleets, Transport was actually negative in the quarter based on that mix.

So it just gives you a little bit, maybe more insight on the Americas sub-businesses.

But EMEA had positive price of 50 basis points, and Asia did have a negative price of around one point, really all attributable to China here as we're just, again, focused on the customers we want to do business with.

Operator: Your next question comes from the line of Joe O'Dea with Vertical Research.

Joseph O'Dea: Can you elaborate on the inflation side of things?

Where it stands now for 2026 relative to how you were thinking about it earlier in the year?

Then any detail on the different buckets. So if we think about commodities and components or logistics and supply chain inefficiencies and tariffs, just to unpack some of the inflation drivers?

Christopher Kuehn: Yes, versus three months ago, six months ago, nine months ago, I put all those categories into higher inflation, Joe.

Obviously the commodity markets and the metals markets, we can see where that is, net inflationary, fuel cost, inflationary, Tier 2. Is it electronics and components, inflationary?

So it's been a pretty dynamic year as we think through the inflation. We described this year as a bit of a headwind as we think about price versus inflation. And we're putting our plans in place for next year to return to our long-term algorithm of positive price over inflation, 20 basis points to 30 basis points.

So we're going to measure twice and cut once here, so to speak. But we'll provide more color on that in our Q4 call, but it has remained an inflationary environment and we're going to drive further negotiations with suppliers. We're going to drive the productivity in the plants. Whatever is left over, we're going to look at pricing as we leverage our business operating system.

Joseph O'Dea: That's helpful. Then shifting to Americas Resi HVAC.

Can you just talk a little bit about direction of travel there?

Good growth in the third quarter. The year pacing better than initially thought. It does look like that growth is expected to slow in the fourth quarter. Was there any pull-forward ahead of anticipated price increases?

Anything that that you're managing before price increases?

Then just bigger picture on the confluence of replacement demand versus mortgage rates and consumer sentiment, how you're thinking about demand in Resi HVAC moving forward?

David Regnery: Look, I mean I think as far as the third quarter goes, obviously it's stronger than we anticipated. We already talked about that.

I'll remind you, there's a relatively easy comp there too, but it was certainly stronger than we thought.

Look, the fourth quarter, there's no pull-through. There's no pull-forward there.

So I think that the fourth quarter will be fine in the fourth quarter. I think when you start getting into 2027, I'm not ready to guide 2027 yet, but obviously we have to have our eyes wide open, as I said in our prepared remarks around the fact that we pay attention to what's going on with interest rates.

Obviously that could be an impact. But we think that the Resi business, we've been more bullish on Resi than maybe others have been, certainly in 2026. I think that's proving to be accurate.

See what happens in 2027.

On the repair versus replace, look, we haven't -- we had a very strong quarter in completes [ph]. We had a very strong quarter, we call our supply business or parts.

So we're not really seeing any clear direction there, whereas last year, obviously we saw a lot of repair versus replace just because the refrigerant debacle that we weren't able to get complete units installed.

Christopher Kuehn: Joe, let me add. Year-to-date sell-in and sell-through are roughly equivalent to each other.

Inventory in the channel at the end of September was in very good position. That's very similar to where we saw it throughout each of the quarters this year. And for the fourth quarter in terms of our guide, we're expecting residential to be up in that high single-digit range again, but easier comps on a year-over-year basis.

But otherwise, the fundamentals in the business remain intact here as we're managing inventory and selling (inaudible).

David Regnery: And I'll also tell you that our team is executing at a very high level in that business, too.

Operator: Your next question comes from the line of Varun Govindaraj with Bernstein.

Varun Govindaraj: So just picking up on the point of reference design someone brought up earlier. Trane puts out a lot of these. What role does that play in the commercial process?

Is it more of a tool showcasing expertise?

Or have you found it almost necessary to engage with some kinds of customers?

David Regnery: I would tell you that we get called to sit around a lot of tables to help, whether it be hyperscalers or other influencers to think through how we can make the thermal management system more efficient.

We have a team that's led by our Chief Technology Officer and his team of experts that are really, really good at it. That's why we get called to a lot of different tables to help design what the future is going to look like.

There's -- in the data center world, you're going to hear a lot more about this, there's trade-offs that need to be considered. But it used to be all about PUE, and that's still obviously very, very important. But there's other trade-offs that need to be considered that we're really good thinking through because we like to think of everything at a system level.

I mean that's like our DNA and like what we do in all of our core verticals. We've just taken that thought process to the data center vertical. I think if you talk to some of the hyperscalers or some of the chip manufacturers, they'd say it's a refreshing view and how we look at what's possible for the future.

So I expect more reference designs, not less in the future and it's really just, again, speaks to the innovation that Trane Technologies can bring to the table.

Varun Govindaraj: Absolutely. Appreciate the color.

Then just as a quick follow-up. Outside of chillers, CDUs and then modular via Stellar, are there any other white spaces in the data center space that you're looking at and thinking of expanding into?

David Regnery: Yes. I mean obviously I won't go into the M&A pipeline, but as a major HVACR player on a global basis, we're going to see lots of opportunities.

I would just tell you that we're going to be disciplined, and we like our portfolio that we have today. We certainly like our service capability that we have today. And -- but we'll also be opportunistic as opportunities present themselves to us.

Operator: We have reached the end of the question-and-answer session. This concludes today's call.

As always, Pat and Kirsten with Investor Relations are available for any questions.

Thank you for joining. You may now disconnect.