Trane Technologies
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Toby Okwara: Welcome to the 14th Annual Laguna Conference. To start off, for any important disclosures, please see the Morgan Stanley research disclosures website at morganstanley.com/researchdisclosures. And if you have any questions, please reach out to your Morgan Stanley representative. We're happy to have Trane Technologies here with CEO, Dave Regnery; and CFO, Chris Kuehn.

So to start off, service is about a third of the business, been performing very well. I think this is going to be, what, the fifth straight year of double-digit growth. How long can you sustain this? And looking at the kind of lag it has versus equipment and how equipment has ramped over the past few years, what kind of opportunity do you see for some acceleration?

Dave Regnery: Well, first of all, thanks, everyone, for coming today. Thanks for your interest in Trane Technologies. It's a great time to buy. So I double down. I don't know what the news was today, but it's a great time to buy. Look, I always tell everyone that Trane Technologies is a great company for several different reasons. It's not one, it's many. And one of those reasons is the fact that our service business is so strong. And Toby, as you said, it's a third of the company. It's had a double-digit growth rate since 2020. And that includes the COVID year. So just think about the durability and the resiliency of this business.

I would also tell you that it doesn't happen by accident. We invest heavily in our service business, whether it's how we train our technicians. We have about 7,500 technicians, all Trane Technology employees, all trained by Trane Technologies. It's how we recruit our technicians. It's the apprenticeship programs that we have that we are constantly looking to attract and build new talent in that space.

It's pretty obvious our service business is built around our applied business. And our backlog, which is at record levels of $12.1 billion, is over 90% applied. As your installed base grows, the tether to your service business is going to continue to expand. So we don't forecast what the growth rate is going to be in the future. But look, we've demonstrated for a long period of time that this is a very, very sustainable and competitive advantage that we have as Trane Technologies. So expect more in the future.

Toby Okwara: And I guess without forecasting, following along there, and data center has clearly been a strong driver, you've highlighted that 8 to 10 times revenue tail you can get on service. How is that augmented as systems have become more complex, especially with data centers?

Dave Regnery: Yeah. We've said that applied systems in our conventional verticals or core verticals typically carry about 8 to 10 times the original price over the life of that asset. That number is probably a bit different in data centers for a variety of reasons. Look, we don't -- how the chiller is actually being used is different in a data center than what you would see in a core vertical. The renewal process or how you retrofit that will probably be different. So we don't believe it's going to be 8 to 10 times. We think it's going to be a little bit lower. But at the end of the day, if you look at all of the chillers that we're installing in data centers, which is a lot, this is going to be great upside for the future.

Toby Okwara: And staying on that AI theme, how have some of your investments in digital, such as BrainBox, augmented your service offering?

Dave Regnery: Yeah, we love being connected to assets. So in the past, we've been connected to assets and buildings for a long time now for decades. But today, we have over 70,000 buildings connected. We probably have 2 million to 3 million assets connected. And what BrainBox has done is in the past, we would always think of things like think of it as machine learning. So we were connected, but it was always about how do you make sure the asset or the building is performing the way it was designed.

With BrainBox, we now can take unstructured data and add that to the equation. So now all of a sudden, you have buildings that are performing not only the way they were designed, but also how they're being used. And that's a difference. And we're able to get 15%, 20% savings by putting algorithms or agentic algorithms in place in buildings.

So if you think about it, and most people don't know this, but buildings waste about 30% of the energy that they pay for, 30%, and that's a very conservative number. And what we can do is we have the technology today with BrainBox in our portfolio of products to not only eliminate that 30% but actually drive it negative. So think about the savings that we're able to drive for our customers in the buildings. And if you think the cost of energy is going to be less in the future, I don't think that's the case. I think it's going to continue to improve and I think our paybacks to customers is going to continue to increase.

Our strategy is think of it as we think buildings are going to get smarter, more resilient in the future, and what that means smarter, they're going to start using more sophisticated controls, using structured and unstructured data to ensure that they operate at the most efficient level; resilient, they're going to start using different sources of power at different times. So for example, you may use electricity, you may use fossil fuel, or you may use storage. And our controls will know what to do at what time to optimize the return for our customer.

We had our Chief Digital Officer, we were running a pilot in Minneapolis and, in February, he came in and he was like, Dave, let me show you the pilot. He was all excited. I said this is great. And I'm looking at the screen, and I'm like, what the heck are we running the heat pump for, which is electric, and it's minus 5 degrees F in Minnesota? Now it was 5:00 in the morning Minnesota time when I was looking at this. And he quickly pointed to the bottom of the screen and he said, well, the cost of a kilowatt is $0.02. That's why we're doing that. So think of it as almost free. Think about that at scale. And that's what we're talking about what we're doing right now. It's really, really exciting.

I know everyone wants to talk about data centers. We're very strong in data centers. We're going to continue to be very strong in data centers in the future. Smart, resilient buildings is as big or bigger opportunity in the future.

Toby Okwara: And to that point on bringing the resiliency and savings to the buildings, could you speak on the longer term tailwinds that surround the equipment business in commercial HVAC?

Dave Regnery: Look, I think the pipeline of activity that we're seeing right now in our business is probably the most I've seen in my career in this industry, and I've been in it a long time. So we're going to continue to accelerate our growth rates and I can tell you our pipelines are very, very strong. In the second quarter, we had order growth in the commercial HVAC Americas

business of 50%. And we tracked 14 different verticals in a lot of detail. And I would tell you the majority of those verticals had growth of over 20%. So look, we see a lot of demand, not only today, but well into the future. And the breadth of our portfolio, our service business, the way we go to market with the direct sales force, those are all things that make Trane Technologies a great company.

Toby Okwara: And digging in there, could you speak on which of the verticals outside of data center have really been the most attractive?

Dave Regnery: Go ahead, Chris. I'll let you speak.

Chris Kuehn: Well, thanks. Look, in the second quarter, we said 11 of 14 we saw growth. Actually, no, year-to-date, 11 of 14 growth. In the second quarter, all of them, we saw growth. So look, we're seeing a lot of continued support in higher education. Office is turning positive and we're seeing growth there. But let me step back and you think about the direct sales force, you go to any one of our commercial sales offices, we have over 100 of them in the US. And you sit down with those teams and you look at the pipelines that they're working on, it's not data center pipelines, it's office, it's higher ed, it's K through 12, it's federal government. Gosh, there's so many different verticals. But I think about what they're working on in their pipeline, sure, data centers are the line item, but for them, over 95% of our sales force is focused on verticals other than data centers.

Toby Okwara: And speaking of that direct sales force, how did that create a competitive advantage for Trane and how do you communicate the value proposition to your customers?

Dave Regnery: What people don't realize is a direct sales force, we have the optionality on calling on all the influencers in a job. So think if you're going to go sell to a hospital, who's involved in that decision making? It could be a mechanical contractor, it could be a general contractor, it could be an architect, it could be the engineer, or it could be the end user. The reality of it is it's all five. And with a direct sales force, we have the appetite to call on all of them to make sure that we could show our value proposition.

If you're going through someone who's representing you or what they call a rep agency, they may not have that appetite. They may want to just call the mechanical contractor, which is fine. But we're calling on all to be able to explain the value proposition. And when you talk to the engineers, you know how much product engineers buy? Not quite zero, but close to zero. What you're doing is you're calling on them to explain the value proposition of your products. And when you do that, you become the basis of design. And if you're a mechanical contractor, you may or may not want to start changing the basis of design, because once you start changing that, you start taking on liability that you may or may not know of. And what we do is we call on all those influencers and that's the competitive advantage that we have as Trane Technologies. We love this. We love talking to customers, we love getting their feedback, and we love being able to help our customers save a whole bunch of money.

Chris Kuehn: And Toby, at direct sales force, they're local, so they know the local laws. So in a city level or a state level, they understand that there's incentives that come from the states or from the cities. They understand incentives that can come from utilities. And they're bundling these incentives and making sure with that local knowledge, bringing it to the customer. And then it's an even stronger payback from the customer when you have that understanding locally.

We've talked in the past about New York City where it's not just -- right now, it's maybe some carrots to move to decarbonization, but it becomes sticks in 2030 and 2035 and so on. So how do you get your customers on that decarbonization journey so they don't pay penalties in the future? Having that local knowledge of those laws that helps out a lot.

Toby Okwara: And with that value proposition, I believe a lot of that is captured in the margin premium you get on the service business. And as this business mixes towards services that continues to grow, how does that augment your incremental margin outlook? I know you've previously spoken to 25%-plus. Is there any room to push that higher?

Chris Kuehn: Well, that's why we have the plus on the back end of that. And so we had some conversations this morning. We typically do about price versus inflation and then incrementals on volumes and that, altogether, should get you to 25%-plus, making sure we have a customer for life, as Dave said earlier, when we want a broad relationship, many

of our customers have multiple assets that you want to be on a journey with them for multiple years for CapEx upgrades.

But at the same time, it's a plus because we have a very robust pipeline of investments and the way to get the top- line revenue growth and it's been a double-digit CAGR for the last five years as Dave called out is to keep investing in the product, having new products out there, more energy efficient products. So that's the governor. But at the same time, we look at it is we're always going to bias to accelerating investments where we can.

Dave Regnery: We're always looking at long-term growth. I know as a CEO, you could get boxed into trying to manage the short term. I would tell you as soon as that happens, you're probably going to fail. So as I said, always look out. We're interested in top quartile growth on the top line. We're interested in top quartile growth on the bottom line. And we're looking for free cash flow which we've been able to have over 100% over the last six years on average conversion, because that tells you the quality of your earnings. I think you all know that. But look, this is a long-term view that we're always going to take.

And you saw in the second quarter, Toby, we were a bit below the 25%. No excuse. No excuse from Trane Technologies. Yeah, we're investing heavily. We bought a new business, Stellar. We're making sure we're implementing our operating system. We have some investments that we pulled in to make sure we get the fundamentals correct so that we could start taking these solutions to other verticals other than just data centers. And again, that's a long-term view that we have as to how we're going to continue to be top quartile growth.

Toby Okwara: Then you mentioned Stellar there. Why was that such a good strategic fit with that longer term outlook?

Dave Regnery: Yeah, I think if you could take skilled labor and variability out of the job site, that's a good thing. If you could take -- think about a job site, there's so much variability that happens there, whether it be weather or whether it be being able to have the proper skills on the job site at a particular time. If you take all that and you move it to your factory a lot of that work and then you basically just deploy it and it's like literally assembling Legos on a job site, that's a much better solution. And by the way, the quality level becomes so much greater.

So look, we think this is a trend not only in the data center space. It's exaggerated in the data center space because of the speed at which we're trying to build data centers. But it's going to be very, very applicable in all verticals. And I think the key, though, is we need to make sure that

we get our fundamentals correct before we start deploying it to the other verticals. And by the way, Stellar, think of it as a $1 billion business. In a couple of years, think of it as mid- teens EBITDA. And we are well on our way to make sure that that will become reality.

Toby Okwara: And to that line of thinking of investing to support these changes in the market, are there any other adjacencies that could be interesting as you see these changes, especially with like data center infrastructures moving forwards?

Dave Regnery: Look, we always get asked the question about what's the M&A you're looking at? And I always say that's a great question that I can't answer. Look, we love being a pure play. Took us a long time to become a pure play. We're going to continue to be a pure play. So if you're wondering about that, don't worry about that. But we're always looking at technologies and we're always looking at how we could scale those technologies within our strong channels. We have the advantage of having the strongest channels in the industry. And when you do that, you could take technologies and deploy it relatively quickly through your channels. And whether that be Stellar on a modular design or whether that be thermal management systems in Europe that we're scaling, or whether it be an air handling system in Europe that we scale through the rest of our distribution.

Toby Okwara: Then kind of thinking to the fact that you are a pure play and when you think about the pitch that you give to customers, how has the partnership with Eaton helped bring the--

Dave Regnery: Eaton, first of all, great company, great leadership team. We work with them relatively a lot in reference designs for data centers. So they're on the same team we are with one of the larger chip manufacturers to develop what the data center is going to look like of the future. And think of it as speed, think of it as efficiency, think of it as cost and all three and that's what we work on together. It's just amazing to me when you take a whole bunch of really smart people and put them in the room together, the solutions that can be developed. And I'm super excited about the reference designs that we've developed with this particular chip manufacturer, but I would also tell you that we're doing that same work with the majority of the hyperscalers. And just to be fair, we work with Eaton, but we also work with others in that space as well, like ABB.

Toby Okwara: And to that point, why does Trane's portfolio resonate so well with these hyperscalers and chip vendors? What gives you that right to win?

Dave Regnery: I think it's not a lot different than what we'd say in other verticals. It's about our domain expertise. We have some of the most technical experts in the industry and they want to be able to work with us. We have this system mindset. Think about how we go to market in our core verticals. We have a breadth of a portfolio that's broader than anyone else in the industry. We're not selling a product. We're selling a solution. We're selling a system. What are you selling in a data center? You're selling a thermal management system. It's not about the chiller, it's not about the CDU, it's not about the cold plate. It's about how that system works together, including the electrical infrastructure with Eaton, so you can come up with a solution that's more efficient and that's what we do really, really well.

Toby Okwara: And to that point, how do those relationships help drive your innovation engine?

Dave Regnery: Yeah. I think the innovation is why we're at the table, because we're able to think differently. We're okay disrupting ourselves. I know that sounds odd, but it's true. I always tell our team, what are we doing to disrupt ourselves? If you're the incumbent and you disrupt

yourself, go look in history. Those are the companies that survive well into the future, and we're not afraid to do that. We pride ourselves on disrupting ourselves, thinking differently.

Look at the thermal management system that we developed in Europe. You had a cooling system on this vertical. You had a heating system, a boiler over here. They didn't even talk together. We combined them into one system, thought differently about how to solve the problem, and all of a sudden now we have the most efficient systems in the world, at least today. And by the way, we keep pushing the envelope on that. So look, we are okay disrupting ourselves. We're okay pushing the innovation.

I would tell you that what we are seeing is, especially in the data center vertical, as we're developing next- generation product, that product is making it into other verticals. So we talk about chillers being smarter in data centers. That's happened. So the majority of what we're doing in data centers right now are air-cooled systems or basically closed-loop systems. The water is not using evaporative cooling. It's using free cooling. And what we've done is we've designed the chiller so the chiller is smart enough to know what's the receiving water temperature, what's the leaving water temperature have to be regardless of what it is. And it will optimize that. And it will take into account the math associated with the area, the temperature that it's operating in and be able to optimize at what point do you use a compressor versus when you just use free cooling. That same technology is being deployed right now, not only in data centers, in schools, in hospitals, wherever it's applicable. It's all about efficiency. It's all about how you generate a system that's different and more competitive for our customers.

Toby Okwara: And on that point on chillers, there was some news earlier this year and conversation on what the content for chillers can be in data centers going forward. Any kind of commentary. And your orders have still been strong. So how does that kind of factor in your outlook there?

Dave Regnery: Well, I told you a couple years ago, we're doing all the reference designs. We're working on the reference design. Have yet to see a reference design that doesn't have a chiller in it. But look, I think that we optimize to what the customer needs. If the water temperature needs to be at 45 C at the plate, we'll have it at 45 C. It's going to leave

the plate at a level that's higher than 45 C. At about 7, you'll be pretty close. That's what has to be removed, because it's got to go back at 45 C. And we're really good at optimizing that.

So look, chillers aren't going to go away. I think what you're going to find is chillers are going to get smarter. They're going to know when to operate in a free cooling mode versus when to operate in a vapor compression mode. I think you'll see a lot more creativity on heat recovery within data centers. We're working on a really cool project right now up in the Nordic area, where in the Nordic area they already have a lot of district heating loops in place. So what we're doing is we're taking the data center and we know when to augment the district heating loop. So you're recapturing the heat rather than wasting the heat or putting the heat back out into the environment so that it becomes an efficiency gain for the district heating loop. And it's going to be really breakthrough thinking as to how data centers of the future start to become an asset to the community versus all the rhetoric you may be reading about in the news right now. But more to come on that, but it's really exciting.

Toby Okwara: And as you think about the chiller evolution, there's been kind of debate on the future of water versus air-cooled. And to that community impact, what kind of impacts are there from these water-cooled chillers?

Dave Regnery: At the end of the day, we're using predominantly air-cooled right now. And by the way, just be cognizant of the fact that you could sit there and say the data center isn't using water because it's a closed loop system. And when you're using air-cooled chillers, that's a true statement. Or when you're using dry coolers with a centrifugal, that's a true statement. Remember to ask the next question, which is where's the power coming from? Because that's a very important question to ask, because if the power is coming from coal, there's a lot of water being used. If the power is coming from nuclear, there's a lot of water being used. If the power is coming from natural gas, it's about 10% of that of coal. So there is a knock-on effect that you all need to be cognizant of that we certainly are aware of as well.

So even though we may be out there saying, look, our system, our data centers that we're doing, we're not using water, we may be using water if you look one step removed, which is very, very important. In fact, I have to go to a meeting actually on Thursday where we'll be talking about that at a very high level with many of these influencers about let's not be naive to just think of the data center as a – it's a whole ecosystem there and the data center is part of it. But the power is coming from somewhere that you need to make sure that that's in a sustainable way as well.

Toby Okwara: And then I know still a smaller piece of the portfolio, but how have the investments in CDUs augmented those data center operations?

Dave Regnery: We're very happy with our CDU business. Very happy. We acquired Stellar, how long ago, Chris? About a year ago?

Chris Kuehn: LiquidStack, we acquired in the first quarter.

Dave Regnery: LiquidStack.

Chris Kuehn: Yeah.

Dave Regnery: First quarter.

Chris Kuehn: But think of it as a great example of a partnership that evolved to a minority investment that evolved to a full acquisition earlier this year and immersion cooling technology that's not ready for primetime, but a great CDU portfolio that, to Dave's point, just gets integrated into a system.

Toby Okwara: And then turning to orders and backlog, I think we're looking at lead times across the industry. There's discussion that they started to extend. So as you think of your order acceleration, how have lead times trended across the portfolio? How does that compare to a year ago?

Dave Regnery: Yeah, our published lead times, I don't know the answer to a year ago, but I would guess they're the same or pretty close. Our backlog is growing, but our backlog is growing because customers are telling us when they want something, not necessarily when they could have something. They're trying to give visibility so we make sure we can go back to our supply chain and make sure that everyone is ready. So we don't have any missed scheduled dates. As far as our published time, if you're a hospital, the published time, depending on the product you need, is probably not that much different than what we've seen in the past. And then you get into some of the -- like residential, obviously, is next day, light unitary could be next day. A lot of

those products are stocked. So it really depends on the portfolio. On the applied side, think of it as pretty close to what it was a year ago.

Toby Okwara: I guess that segues us shifting gears into resi, what's your current sense of channel inventory and then what gives you that color into the channel?

Dave Regnery: Look, we were the company in the fourth quarter of last year. We said, look, we're going to get our inventory right going into 2026. And we made a decision to take a lot of work days out, which was not an easy decision because it impacted a lot of lives. But we thought that was the right decision. So we get this behind us. We adjusted our inventory. Told you in the first quarter, I think we had it set right. I tell you right now we have our inventory set right. So inventory in our channel, we're in good shape.

Toby Okwara: And any commentary on how end demand has been trending so far in the quarter and what the outlook is?

Dave Regnery: I won't give you inter-quarter guidance on that, but it's been pretty hot out this summer. North Carolina, I was out walking yesterday, it was 100 degrees. I was like, this is crazy. So we'll see.

Chris Kuehn: Year-to-date sell-in, sell-through about the same. As Dave said, we entered into the year with a really good inventory level on the channel. We said the same at the end of the first quarter, end of the second quarter as well. And our guide for the year is on mid-single-digit growth for the residential business. We'll see how it kind of plays out. But happy with what we did last year to set this year up for better success.

Dave Regnery: Remember, residential is about 15% of the enterprise.

Toby Okwara: So then I guess how do you think about the pricing environment in resi? One of your peers has commented that it's very different from like 2022 when you'd be pushing through some multiple mid to high-single-digit increases during a year. How do you think about pricing now?

Chris Kuehn: Yeah, the business has put forth two price increases this year. One was effective April 1. That was up to 5%. One was effective July 1, also up to 5%. And really, it starts with just leveraging our inputs and our business operating system and what are we seeing for cost, what are we seeing for demand, what are we working with the supply chain to mitigate. And to the extent that you've solved for as much as you can, then pricing is a lever that we'll kind of have to implement to ultimately have that cost versus inflation balance out.

What we said for the enterprise is that for the first half of the year, price versus inflation was a headwind. Expecting it to be a headwind in the second half of the year. It was captured in our guide that we provided in July. And to Dave's point, we're focused on top line, bottom line and cash flow for the enterprise and we'll see where we go into next year, taking inflationary environment and how do we make sure we're ready for mitigants and ultimately with pricing where it needs to be. But look at residential, it's really a zip code by zip code space where you're making decisions on price, but on the aggregate, where the price increases, we're generating the yield that we expected through the end of July.

Toby Okwara: And then turning to the transport side, how do you assess the pace of recovery in that market that's been fairly soft over the past couple of years? And what gives Thermo King the opportunity to outperform the market?

Dave Regnery: You mean over the last four years? Look, Thermo King is a great business. It's probably the business that got the most overbuilt during the COVID time where there was a lot of product that was put in and it's taken a long time to get it out. But I would tell you that the first half was slow for us, but we project the second half to be much stronger and we project momentum going into 2027.

Look at spot rates, look at rejection rates, look at the age of the fleet. These are units that if they get too old, they start to cost a lot to run. And I've had the opportunity to run that business at one time in my career, and I would tell you that some of the smartest business people I've ever met run trucking companies. So they will make the right decision. So pretty bullish on 2027. I don't think the recovery will be as fast as what ACT is projecting for a lot of reasons, mostly because I don't believe the trailer OEMs will be able to react that fast. But I do think that will be a growth driver for us in 2027 adn beyond. I think we're going to go into the year with a lot of momentum.

Toby Okwara: Then shifting to the international side. How has the EMEA pipeline been progressing?

Dave Regnery: Which?

Toby Okwara: In EMEA?

Dave Regnery: EMEA. Well, I think let's separate Middle East from Europe. In Europe, very strong second quarter, orders were up 20%. And I think I told everyone in the second quarter earnings call, the pipeline of activity, so before something becomes an order is very, very strong in Europe, probably the strongest I've seen in a long, long time. So that's exciting. Middle East is a little bit of a different story that, obviously, we're down over 30% there and that will continue until hopefully things get resolved quickly. But overall, in Europe, we're seeing a lot of strength, which is good.

Toby Okwara: What have been, I guess, the strongest underlying drivers of that strength?

Dave Regnery: Yeah. Obviously, data centers are certainly strong there. But I would also tell you that it's a lot of innovation. Europe is one where we've always led with innovation. You could argue that the markets in Europe have been flat for a long time and go look at our growth rate in Europe, and you'd see that we're winning with our innovation, we're winning with our direct sales force, we're winning with our service business, we're winning with our can-do culture and expect that to continue in the future.

Toby Okwara: And then on APAC, what's the strategy there and, outside of China, what have been the growth drivers?

Dave Regnery: Yeah, Asia-Pacific, think of it -- it's about 6% of the enterprise, first of all, think about half of that is China, half of that is outside of China. Outside of China, we've had some nice strength. But we have a lot of good activity going on really across the regions, whether it be India, whether it be Malaysia, whether it be Thailand, Singapore. All areas where we've seen nice growth. It's in the high-tech industrial space. It's in data center space. It's in hospitals. It's in a lot of what we would call our core verticals. China is a little bit more dynamic, but we have a very strong team there. And that team will continue to execute, but we'll continue to move forward.

Toby Okwara: And then could you speak on broader capital allocation? We spoke about M&A earlier. Any other priorities that will be key to the strategy?

Chris Kuehn: Well, we feel we've got the broadest portfolio in the industry. So there isn't anything we absolutely need. We've got almost a fortress balance sheet. I say almost, but we have a fortress balance sheet in terms of we can have great optionality to look at make versus buy decisions and not feel constrained. Maybe quietly, but for the last five, six years, we've done about 30 acquisitions. And it's across channel, it's across early-stage technology. Some of it is like that partnership with LiquidStack from a partnership to an investment or ultimately an acquisition. But we really like taking those early-stage technologies and matching them up with the deep channel we have, especially in our commercial HVAC portfolio.

But I would say, look, our focus is to invest in the business first and a couple times in a year, it happens more frequently, but we have some very robust meetings twice a year on the innovation reviews, it's our pipeline within each of our business units. We've limited it to 10 to maybe sometimes 11 projects that the teams are working on. And generally, we're really talking about how do we keep adding and moving faster in that innovation pipeline and that drives bookings or drives the top-line revenue growth. So for us, it's really maintaining unconstrained investments where we can go drive that. At the same time, we've grown the dividend each and every year and the board approved a 12% raise this year. So we'll fund the dividend with earnings over time. Since we launched Trane Technologies, I think we're just about 99% growth of the dividend from there. So let's see next year, we'll see if we break 100% [totally].

Dave Regnery: Told you to go to 13%, we could say we--

Chris Kuehn: I know. I could set 100% at that point. After that, it is toggling between M&A and share repurchases and we continue to calculate the intrinsic value of the company stock as we think about our long range plan and our inside knowledge on where we're growing, where we're investing. And as you've seen us do in the past, we've deployed cash to M&A. And when that's not actionable or in the quarter, we'll look at doing share repurchases as well. But it's unconstrained in terms of the cash that we generate and we really like that five year average. I think the last I saw was 105%, 106% conversion of free cash flow to earnings.

Dave Regnery: Someone told me a long time ago that when you hear a lot of arguments from both sides of the equation, things get a little bit -- they get a little volatile, and they told me to just stay with the fundamentals. If you stick to your fundamentals, you're going to be in good shape. And I would tell you at Trane Technologies, we're going to continue to execute, we're going to continue to have top quartile growth on the top line, we're going to continue to have top quartile growth on the bottom line, and we're going to continue to convert our cash flow. And those are the fundamentals that will be in the long term.

I've been the CEO now for -- I'm on my sixth year. I feel I was just here the first time I became a CEO like in a snap. But it's been six years now. And back then, I think I told everyone, look, we're a great innovative company, we're a great operator, but I want to create a growth company. And people looked at me like I was a little bit crazy. And here we are. We've had double-digit growth, double-digit growth, during that time, compound annual growth rate of double digits over that time period. And I look at you all today and I say I see more opportunities today than I saw six years ago, and whether it be the data-center vertical, whether it be the smart resilient buildings, or I see a service business that's just executing flawlessly. We have more opportunities today than we did six years ago.

So look, it's a great time to invest in Trane Technologies. For some reason, we're on sale today. But look, I would tell you that I have so much confidence in the future of our company. And yes,

I am biased because I'm the CEO, but I would also tell you that I've been in this industry a long time, and we have just unbelievable opportunities in front of us.

Toby Okwara: And as you look at those growth opportunities, especially with data center moving so fast, how does that affect, how you think about capacity, and what you may need to do with capital going forward?

Dave Regnery: Look, we got in front of capacity, maybe we did it silently, we didn't advertise it. We've expanded our applied system capacity by 4 times over the last 2.5, 3 years. We continue to make investments where required. We know what our pipeline is. We know what our commitments are. And we have a business operating system that helps us make sure that we stay in front of that. And we plan on doing that. I would tell you that we're relatively CapEx light. I know that we'll talk about 2%, but compared to other industries, that's CapEx light. And these facilities that -- we are bringing facilities on board. Most of them are leased. So there is a bit of variability there if something starts to slow down, which we don't see happening.

Chris Kuehn: And think about capacity, too, with a third of the company's revenues being services. It's capacity with service technicians and always adding to our service technician fleet. And we think about it as retention. And why do you retain a service tech when they're in high demand? Well, one of the ways you do it is you train them. And so late last year we opened up a service technician training center in Davidson, North Carolina. We have multiple of these around the globe, but this is I think the premier one. It's nearly 50,000 square feet and think about over, I think it's 3,000 now technicians to date have been through training at the technician center.

And starting from, let's call it the more basic applications in the unitary space and rooftops, water-cooled, air-cooled all the way through, the largest applications you'd see and that would go in our data center vertical, having that service tech leave their office for a week, come down to Davidson and be trained and not just on equipment, but on controls as well, what's the latest architecture we have with controls, what are we doing with BrainBox. And now those service techs go back to their offices and they're even more ready to go support the customer where many times they are the main contact to our end customer and they're helping guide the customer down a path. So bigger capacity is around service techs, about training and retaining. Many times you get more service techs because of great referrals. They like to be trained, as I said. And then we're putting in programs and have had programs around apprenticeship where we're adding, I think, it's, what, 300, 400 Dave or so?

Dave Regnery: A little bit less than 400.

Chris Kuehn: 400, where you're getting apprentices, where it's a multiyear journey for them and a lot of it's on the job. And then they come back and they get trained for a couple weeks and they go back into the workforce and work with a master apprentice or a master technician to grow through their apprenticeship program. So think of it as a great investment. And next time you're down in Davidson, we'd love to show you what that service technician training center is. It's pretty cool. And this is all operating equipment there in the room.

Toby Okwara: And as you--

Dave Regnery: They tried to train me, but they say I'm not very good, so I can't stay there.

Toby Okwara: I think you're doing great at what you're doing. And as we think about the capacity added both on manufacturing and on the labor side, how do you stay thoughtful about the cost profile of the business and making sure you stay on the healthy margin trajectory?

Chris Kuehn: Well, I think, number one, we think about incrementals. And let's have volume come through the facility and we like the incrementals on volume. So we're always thinking about lean. So work with what you have, how do you get faster or more volume on an existing line, how do you redesign the space to get even more lines within an existing location? And then after that, then you're thinking about additional space beyond it. But think about having value to the customer. It leads with innovation. That's when you can get pricing. And if you're out there four years later with the same product you had four years ago, that's a tough conversation for a salesperson, I'm sure. So our goal is let's keep investing in the product, drive the factories to where we need to be for great output, great quality as well. You get quality where you want it to be. That's a lower cost to serve. We have multiple ways to get there on the margins.

Toby Okwara: That's great. I think that's about all the time we have. But thank you again.

Dave Regnery: Thanks, everyone, for coming. Thanks for your interest in Trane Technologies and, hopefully, you're happy shareholders. Thanks, everyone.

Chris Kuehn: Thank you.

Dave Regnery: Thanks, Toby.

Toby Okwara: Thank you.