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Ingersoll-Rand Plc (IR)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Zachary A. Nagle
Vice President-Investor Relations, Ingersoll-Rand Plc

Thanks, operator. Good morning, and thank you for joining us for Ingersoll-Rand's fourth quarter and full year 2017 earnings conference call. This call is also being webcast on our website at ingersollrand.com, where you'll find the accompanying presentation. We are also recording and archiving this call on our website.

Please go to slide 2. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of Federal Securities law. Please see our SEC filings for a description of some of the factors that may cause our actual results to differ materially from our anticipated results. This presentation also includes non-GAAP measures, which are explained in the financial tables attached to our news release.

The participants on today's call are Mike Lamach, Chairman and CEO; and Sue Carter, Senior Vice President and CFO.

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With that, please go to slide 4 and I'll turn it over to Mike.

Michael W. Lamach

Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Thanks, Zac, and thanks everyone for joining us today. As I've said a number of times as we held our Analyst Day in May of 2017, I'm more bullish about how Ingersoll-Rand is positioned to execute on our strategy to deliver strong shareholder returns over the next several years than I've been at any other time in my tenure as CEO.

Please go to slide 4. I'd like to start this morning by reviewing the fundamental elements of our business strategy because in the midst of any busy earnings season, it's easy to move directly to micro trends and quarterly pluses and minuses and lose sight of the larger fundamental picture and trends that really drive value for long-term shareholders.

First, our underlying strategic objectives continue to be to deliver profitable growth through leadership positions in durable markets underpinned by global megatrends such as sustainability and the need to dramatically reduce energy demand and resource constraints in buildings, homes, industrial, and transport markets around the world.

We focus on innovation and delivering the most reliable, energy-efficient, environmentally-friendly products and services available, enabled by digital and other exponential technologies. We excel at delivering energy efficiency in reducing greenhouse gas emissions, reducing food waste, preserving natural resources and generating productivity for our customers.

We maintain a healthy level of investment in our businesses to sustain leading brands, which are number one or number two in virtually every market in which we participate. It's important to highlight that we continue to invest to maintain the portfolio with superior breadth and depth in nearly every major product category in which we compete.

In 2017, we continued our product growth team efforts, launching approximately 70 new major products throughout the world. We continue to strengthen our digital capabilities, creating value with customers, and achieving competitive advantage. We launched TracKing, Thermo King's new asset management system. Through remote connectivity, best-in-class mobile app, and data gathering, customers make their fleets more predictable and traceable without taking assets off the road. For moving perishable goods, this ultimately strengthens their control and creates efficiencies.

This month, we introduced the Club Car Tempo Connect, the first car available with standard digital technologies that enhance the experience for golfers and course owners. We also applied breakthrough digital technology such as Trane GO to strengthen our residential HVAC connection with consumers and help them make more informed purchase decisions. This has resulted in a 2017 increase of 30% in our lead closure rate with consumers.

In 2017 alone, we doubled the size of our EcoWise portfolio of products significantly ahead of regulatory requirements. These are products that reduce the impact on the environment and meet regulatory requirements for the use of next-generation low global warming potential refrigerants without compromising efficiency and operating performance. This month, we introduced the latest addition to the EcoWise portfolio, the Trane Agility, a new water-cooled centrifugal chiller product line ideal for retrofitting existing commercial buildings.

In Compression Technologies, we continued to expand our products and service offerings. In 2018, we'll significantly expand our market coverage for contact-cooled compressors to meet growing customer demand. On the Services side, we'll be adding remote connectivity to rotary and oil-free equipment service offerings across

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North America. Our pipeline of innovation that solves complex customer problems is as exciting as ever and we have no intention of slowing down.

Second, our business model is designed to excel at delivering strong top line incremental margins and free cash flow through our business operating system over the long term. Our business operating system underpins everything we do and enables us to consistently generate high levels of free cash flow which fuels our dynamic capital allocation strategy.

In 2017, our business operating system enabled us to deliver free cash flow of $1.3 billion which was 118% of adjusted net income. While the leverage in our Climate business was below our historical and long-term objectives, we overcame a number of headwinds during 2017 including persistent rising inflation and more pronounced success in penetrating underserved HVAC markets in China than we had anticipated. We expect our Climate segment to return to historical leverage levels in 2018 and beyond.

2017 capital allocation was dynamic and balanced, with healthy investments in organic innovation, in new acquisitions and partnerships, in key strategic channels and technologies. We also continued to substantially increase the dividend during the year, and we purchased over $1 billion of our outstanding shares.

And finally, over the years, we've built an experienced management team and a high-performance culture which gives me confidence in our ability to deliver strong results consistently over the long term. I hope this provides further insight into why I've never been so excited about the next few years for Ingersoll-Rand. We are extremely well positioned to deliver strong shareholder returns going forward.

Moving to slide 5 and turning our attention back to 2017. We met or exceeded the commitments we made in January 2017 when we gave our full-year 2017 guidance. We exceeded the top end of the range on the core financial metrics: revenue growth, adjusted EPS and free cash flow.

Importantly, we also delivered against our capital allocation commitments deploying $1.9 billion between dividends, share buybacks and acquisitions. We met the lower end of our guidance range on adjusted operating margins. As we move through the presentation, we'll spend time discussing our path to delivering improved operating margin leverage in 2018, as this is a key area of focus for us.

And now, I'd like to turn it over to Sue to provide more details on the quarter and our market outlook and guidance for 2018. Sue?

Susan K. Carter

Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

Thank you, Mike. Please go to slide number 6. I'd like to begin with a summary of main points to take away from today's call. As Mike discussed, we drove solid operating and financial results in the fourth quarter, with adjusted earnings per share of $1.02, an increase of 21% versus the year-ago period. We delivered high-quality earnings which helped drive 2017 free cash flow to $1.3 billion or $118% of adjusted net income. Organic bookings and revenue growth was strong in both our Climate and Industrial segments.

In the Industrial segment, we delivered low-teens bookings growth in all three Industrial businesses. We also delivered the strongest organic revenue growth quarter of the past three years. Additionally, the business continues to make steady improvements in its overall operating performance.

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On the Climate side, organic bookings were up high-single digits in commercial HVAC, with low-teens growth in North America and solid growth in all other regions except for Latin America. Organic revenue growth was also strong, up 6%, and was broad-based across all of our Climate businesses.

Our Industrial business continues to strengthen its operational performance ahead of our expectations, with 160 basis points of improvement in adjusted operating margins on 5% organic revenue growth. Organic revenues were up low-single digits in compressor technology and low-teens in Club Car and Industrial Products.

Importantly, we also delivered balanced capital allocation results while meeting the commitments we laid out for investors in our guidance in January of 2017. We deployed $430 million on dividends and increased the dividend 12.5% during the year, consistent with our commitment to maintaining a strong and growing dividend over the long-term.

We deployed $1 billion on share buybacks as the shares continue to trade below our calculated intrinsic value. To date, we've also deployed or entered into commitments for approximately $460 million in strategic, value-accretive technology and channel acquisitions, two of which we announced in January of 2018.

Please go to slide number 7. The focused execution of our business strategy, underpinned by our business operating system, enabled us to drive solid year-over-year financial performance. We delivered organic revenue growth of 6%, adjusted operating margin improvement of 20 basis points, and an adjusted earnings per share increase of 21%. Strong gains in volume, productivity, and positive price more than offset headwinds from material cost inflation.

Please go to slide number 8. Organic order growth was robust in the fourth quarter. In fact, it was the fastest organic order growth for the enterprise in over three years, with broad-based growth in nearly all businesses. Commercial HVAC bookings were up high-single digits. Commercial HVAC bookings in North America were up low-teens, and EMEA grew high-single digits, while Asia grew low-single digits.

Our Transport business continued to demonstrate its diversity and resiliency, posting modest growth in EMEA, Latin America, and Asia, and strong growth in APUs, truck, air, and in the aftermarket business. These gains nearly offset expected weakness in the North America trailer market, netting a low-single-digit decline in total Transport orders. Industrial bookings were strong, up 12%, with low-teens growth in all three of the businesses. Regionally, North America, Latin America, and Asia all posted strong gains, modestly offset by softer markets in EMEA.

Please go to slide number 9. In our Climate segment, organic revenue was up mid-single digits in North America, up high-single digits in Europe, and basically flat in Asia where low-teens growth in China was offset by softness in other countries in the Asia Pacific region.

In our Compression Technologies business, North America was up low-teens in equipment and high-single digits in parts and services. Industrial Products, which includes our tools, fluid management and material handling businesses, and small electric vehicles, were both up low-teens. Overall, North America and international revenues were up mid-single digits, netting a 6% organic growth rate for the enterprise.

Please go to slide number 10. Q4 adjusted operating margin improved 20 basis points primarily driven by strong volume, productivity improvements, and positive price partially offset by material inflation, investments in products and services, and lower margin business mix from our continued success penetrating underserved markets in China HVAC. We discussed the impact of China business mix on our third quarter call, but we'll spend some more

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time discussing our underserved market penetration strategy in our topics of interest section towards the end of our prepared remarks.

Please go to slide 11. Our Climate segment delivered strong broad-based revenue growth across the business. Operating margins were impacted primarily by material inflation and our mix of business from underserved markets in China.

Please go to slide 12. As previously noted, operating performance in our Industrial business continues to steadily improve across the board. In the fourth quarter, the segment delivered low-teens organic bookings growth, 160 basis points of adjusted operating margin expansion, and 5% organic revenue growth. Our continued focus on improving the fundamental operations of the business is making Industrial a stronger, more resilient business which should allow us to lever up nicely as the industrial markets continue to gradually improve.

Please go to slide 13. Strong execution of our strategy and our business operating system continues to deliver powerful free cash flow. We continue to grow earnings, manage working capital to the right levels, including having inventory to meet growth and on-time customer delivery, and invest in capital expenditures to support our businesses.

We delivered $1.3 billion of free cash flow in 2017, which enabled us to maintain our strong balance sheet and retain optionality as our markets continue to evolve. It also enabled us to execute against our balanced capital allocation priorities and commitments to drive long-term value for shareholders.

Please go to slide 14. In 2017, we executed a balanced capital allocation plan and delivered against the commitments we laid out at the beginning of the year, employing capital where it earns the best returns. We maintained a healthy level of business investments in product technology and innovation to extend our market leadership and to help customers solve their most complex challenges. We made strategic investments in value-accretive technology and channel acquisitions that further improve long-term shareholder returns.

We maintained a strong balance sheet that provides us with continued optionality as our markets evolve and retained a BBB credit rating. We executed against our longstanding commitment to a reliable strong and growing dividend. We also raised the dividend 12.5% which is ahead of the rate of earnings growth. Additionally, we deployed approximately $1 billion on share repurchases as the shares continue to trade below their intrinsic value.

As we look forward to 2018 and beyond, we want to be very clear about how we're thinking about capital allocation. We are committed to a dynamic capital allocation strategy that consistently deploys excess cash to the best return on investment opportunities. Our overarching strategy and priorities remain the same, as I just outlined, and that we executed in 2017. We have a strong balance sheet and good optionality and we don't anticipate a need to add cash to our balance sheet for the foreseeable future. We're excited about the future and the opportunities that are ahead to deploy excess capital to the best ROI investments, whether that be investment in the business, raising the dividend, repurchasing shares or making value-accretive acquisitions.

Please go to slide 15. Let me take a moment to discuss the impact of the U.S. Tax Cuts and Jobs Act. In December, we booked the impacts of U.S. tax reform through the P&L on a provisional basis. We booked a largely non-cash benefit from revaluing our deferred tax assets and liabilities at the new rate of 21% versus the prior 35% rate. We also booked a liability for repatriation tax of approximately $160 million, which is payable over the next eight years. We also booked a few other tax-related entries in Q4 and all tax reform and other entries are in the non-GAAP tables presented with the press release.

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We have had access to our cash through our tax-efficient structure for many years. We've utilized our cash to invest in our businesses in energy-efficient and sustainable products, and have returned cash to shareholders through our competitive and growing dividend and share repurchases. Our actual cash repatriation is expected to be between 10% and 20% of our year-end cash balance. We will continue to utilize our tax-efficient structure in the future and our projected tax rates are expected to remain in the low 20s.

Please go to slide number 17. I'd like to begin our guidance conversation with some color around what we're expecting from our end markets. Overall, global economic activity was healthy in 2017 and a majority of economic indicators point to a continuation of this trend in 2018.

With a positive economic backdrop and our strategic product portfolio focused on global megatrends such as energy efficiency and sustainability, we see positive momentum in a majority of our markets in 2018. The setup for North America Commercial and Residential HVAC markets looks positive and we're expecting a mid-single digit growth in these core markets.

In North America, approximately half of our Commercial business is services and parts where we had good growth throughout 2017 and where the nature of the business generally tends to provide a more stable and recurring annuity stream, than put in place equipment which would be associated with things like new building starts. We've also had strong demand for upgrades to connected buildings and for energy retrofits to capture the energy efficiency savings from new equipment, controls and diagnostics.

In the Residential market, replacement units make up approximately 80% of the total market. And as you can see from our bookings and sales growth in the fourth quarter, this market remains healthy. We expect to see continuing growth in both replacement and new construction in 2018.

Outside of North America, Commercial HVAC markets are not expected to be quite as strong, with EMEA and Asia expected to be flat to up slightly. We expect Latin America markets to be up low single-digits. Transport markets in the Americas are expected to be roughly flat compared to 2017. Low-teens declines for North America trailers are expected to be offset by growth in trucks, auxiliary power units, and aftermarket parts.

Transport in Europe is expected to be up based on growth in truck and trailer sales and a bottoming of the marine container market. Asia Pacific Transport continues to show significant opportunity with the challenges of getting fresh food in and around densely populated cities. This business was up low-teens last year, and we expect continued momentum in 2018.

Global industrial markets generally continued to improve gradually as economies stabilize and CapEx budgets expand. We remain cautiously optimistic about demand and expect global industrial markets to continue to show modest, steady growth in 2018.

We've had solid improvement in order growth in North America and Europe in our short-cycle Industrial businesses. The markets in Asia modestly improved during the fourth quarter, and we expect continued modest improvement in 2018.

The large long-cycle compressor market started to improve in 2017 due to stabilization in the energy and heavy industry markets. Large long-cycle bookings were up a high-teens percent in 2017 and ahead of our initial expectations, which is encouraging. These orders tend to have a cycle time of roughly 12 to 18 months.

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Golf, utility vehicles, and consumer vehicles combined are generally expected to be flat to slightly up across the globe. Our consumer vehicle continues to grow at a nice clip, and utility vehicles are also expected to have good growth in 2018. We expect the golf market to remain roughly flat.

Netting this all out, we are forecasting mid-single-digit growth in commercial HVAC in total, mid-single-digit growth in residential HVAC, and low-single-digit growth from our diversified portfolio in Transport. We expect our Compression Technologies business and our Industrial Products business, including the power tools, material handling, and fluid management businesses to be up mid-single digits overall. Small electric vehicles are expected to be up mid-single digits.

Please go to slide 18. I'll spend a few minutes walking you through the details for our 2018 guidance. Given the backdrop discussed on the previous slide, we expect total reported revenues to be up 5% to 5.5% in 2018 with both segments positively contributing. The difference between our reported and organic revenue contemplates about 1 percentage point of positive foreign exchange and about 1 percentage point from 2017 acquisitions.

For the enterprise, we expect to see solid leverage from higher volumes, improved price and continued high levels of material productivity and other productivity more than offsetting material inflation. At the midpoint of our guidance, we'd expect to see approximately 50 basis points of margin expansion for the enterprise.

Please go to slide 19. We expect continuing adjusted earnings per share for 2018 to be in the range of $5 to $5.20 excluding about $0.20 of restructuring. We have modeled approximately $500 million in share repurchases into our guidance which translates into approximately 250 million diluted shares for 2018. As I outlined earlier, we're committed to dynamic and balanced capital allocation that consistently deploys excess cash over time. Net – the actual allocation of excess cash will depend on where we see the highest ROI opportunities over the coming quarters.

Our target for free cash flow is equal to or greater than 100% of net income. The tax rate is estimated to be between 21% and 22% after including anticipated impacts of the December 2017 U.S. tax legislation. This is consistent with our prior long-term structural tax rate. So while there are puts and takes, the bottom line result is that we're not expecting a change for Ingersoll-Rand.

For your modeling purposes, we also offer the following guidance. Corporate expenses are expected to be approximately $250 million. Capital expenditures are expected to be approximately $300 million, up from approximately $220 million in 2017, primarily driven by factory consolidation and localization initiatives.

Now I'd like to turn the call back over to Mike to cover key investor topics of interest and to close with a summary of key points.

Michael W. Lamach

Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Thanks, Sue. I'm going to spend the balance of our prepared remarks discussing the topics of interest we've received from many of you ahead of the call and then do a quick wrap-up summary before we open the floor for questions. Thanks to all of you who provided feedback to help us improve our focus on the issues that matter most to you in this section.

Please go to slide 21. The first topic I'll cover is our China strategy. It's one of the topics that has garnered a lot of interest from investors, so we wanted to spend some time providing more detail on the strategy and expected impact going forward. First, it's important to note that our strategy in China for Tier 2 and Tier 3 cities is a proven

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strategy we've been successfully implementing in Tier 1 markets in the applied space since we first entered the market.

Our strategy is to enter underserved geographic and vertical markets by using a direct sales force, selling the product the way we do in most mature markets on a total cost of ownership basis versus the way you would sell an undifferentiated commodity. This takes a talented network of salespeople and other infrastructure investments to deploy, which we've been doing for the past 18 months.

Once the customer has experience with our systems and sees the value and the total cost of ownership equation, we aim to become the basis for design whereby we are advantaged with system reliability, energy conservation, and greenhouse gas emission reductions.

We fundamentally transformed the market landscape to compete on total value terms and are rewarded for our quality technology and innovation, and service/support. Margins improve as they would in any market where a product or service is differentiated and has a unique value proposition customers are willing to pay for.

With applied equipment comes the opportunity to rapidly grow our service business, which further enhances long-term margins. This strategy has been very successful for us, particularly in 2017 as we accelerated investments. The negative price versus material cost impact is primarily the mix impact of entrance into these new markets, compounded by material inflation which has been persistent in the region.

It's resulted in an impact of more than half of our total negative price versus material cost spread in 2017, so it's important to understand the strategy, the temporary impact from the shift in our mix in China, and a long-term endgame.

We expect a few things to improve in 2018. First, pricing should improve in these markets as we move through the year. Second, we expect a less inflationary environment in 2018 as we begin to lap 2017 inflation. Third, we've largely completed the necessary infrastructure investments to complete execution of our strategy in 2018, so these investments should become less of a headwind versus 2017. And lastly, we're focused on growing our services mix in these markets which should enhance future margins.

In summary, for the reasons stated, we expect China to be EPS-accretive in 2018 and believe our investments here will help build shareholder value for years to come.

Please go to slide 22. Looking at 2018, we expect to deliver improved operating leverage through the P&L based on a number of factors.

First, we expect to drive profitable volume growth based on the continued health of our core markets as Sue detailed earlier. We also expect to see higher pricing in 2018 versus 2017 and have already put through price increases to cover expected inflation in many parts of our business which should improve our price versus material cost equation.

In 2017, we had a negative price versus material inflation spread of approximately 60 basis points. We expect to narrow this gap considerably which, in and of itself, would be a tailwind to margins in 2018. Additionally, we continued to drive material and other productivity through the P&L which is always an important driver of margin improvement in our business operating system.

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Looking at the positive price we've seen combined with the positive material costs productivity we've driven which is a component of our productivity bridge, we had a positive spread versus material inflation of 70 basis points in 2017, and we'd expect similar performance in 2018. Additionally, we will see a reduction in headwinds from our China strategy as I detailed earlier.

And lastly, as discussed at our Analyst Day, we see good opportunity to deliver significantly higher levels of profitability in our large engineered order compressor technology and increasing demand for our higher-margin tools, fluid management and material handling products along with continued mix shift from golf to consumer small electric vehicles.

Please go to slide 23. This has been a key topic of interest in the past so we wanted to include it in our prepared remarks as we close out the year. The bottom line is that our Thermo King business is resilient, and our 2017 performance bears this out. During 2017, we achieved a low-single digit increase in total Thermo King revenues in the face of a North American trailer market decline, and we maintained relatively flat margins for the business at the same time. Our diversification strategy yielded results with growth in worldwide truck, auxiliary power units, aftermarket, and with particular regional strength in Asia. Looking at 2018, we're expecting similar performance across the business.

Please go to slide 24. As previously discussed, we have spent or committed approximately $460 million over the past 12 months on strategic acquisitions or JV partnerships. In January, we announced our JV with Mitsubishi Electric, which is pending regulatory approval. Once completed, the new joint venture will include marketing, sales and distribution support, a variable-speed mini-split, multi-split and a variable refrigerant flow heating and air conditioning systems in the U.S. and select Latin American countries.

We also announced our acquisition of ICS Cool Energy. ICS Cool Energy is one of the largest temporary HVAC rental businesses in Western Europe. ICS Cool Energy also sells, installs and services high-performance temperature control systems for all types of industrial processes. It's a strong fit with our HVAC business, expands our sales and service channel in key Western European markets, and strengthens our growth plans.

Turning to slide 25, I'll close our prepared remarks where I began. I have never been more excited about the future prospects of Ingersoll-Rand in my tenure as CEO than I am right now. The company is extremely well-positioned to deliver strong shareholder returns over the next several years. Our strategy is firmly tied to attractive end markets that are healthy and growing profitably, supported by global megatrends such as energy efficiency and sustainability.

We've been investing heavily for years to build franchise brands and to advance our leadership market positions to enable consistent profitable growth. We have experienced management and a high-performing team culture that breathes operational excellence in everything we do.

And lastly, we are committed to dynamic and balanced deployment of capital, and we have a strong track record of deploying excess cash to shareholders over the years. 2017 was a good example. We had balanced execution of capital deployment across a number of high-priority, high-ROI areas, including investment in the business, a strong and growing dividend, value-accretive M&A, and significant share repurchases as the stock continues to trade below its intrinsic value. Going forward, these priorities remain the same, and our commitment to the deployment of excess capital is unchanged.

And with that, Sue and I will be happy to take your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Steve Winoker from UBS. Steve, your line's open.

Steven Winoker
Analyst, UBS Securities LLC
Q

Thanks and good morning, all.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

Morning, Steve.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc
A

Hi, good morning.

Steven Winoker
Analyst, UBS Securities LLC
Q

Hey, just first on guidance. Just want to understand again the relationship between the bookings that are trending 8% organic and 3% to 3.5% organic guidance on growth. Obviously there's a lag time in – on order to delivery in the Industrial side, but maybe help us understand that. And also, on the free cash flow conversion, the – I guess, as the CapEx increase, is there inventory build? Are there other things that are kind of forcing that step down versus prior year?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

Steve, I'll do the first one, which – the bookings came late in the fourth quarter, and so the exact timing of some of the larger compressor and applied shipments would still be a question mark. So, whether that's a fourth quarter 2018 or first quarter of 2019 delivery, it's TBD, and we'll update that throughout the year. But the bookings were definitely much stronger, and that was a pleasant surprise really from where we thought we would be at the end of the year. Backlogs were up about 12% going into the year. So, we'll update shipments as we go further into the year. And, Sue, on CapEx?

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc
A

Yeah. So, on CapEx, Steve, as we look at it, so we guided $300 million for 2018. When we started out the 2017 guidance, we gave you about $250 million. We came in at about $220 million. So, in other words, $30 million was really CapEx that we didn't spend in 2017 that we're going to move over into 2018. So you have just a slight amount of increase.

The other thing that I would say is when you think about the $300 million, the $300 million is primarily going to be new product introduction. It's going to – the capital associated with that is going to be on factories for increasing productivity and increasing cost reduction ideas in our factories. So, those primary objectives when you think

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about them are very clear with our growing operating margin and operating leverage. So, we think that that $300 million is a good use of capital for 2018.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. And, Mike, just at a higher level, if we go back to the time that you took over and all the changes that you've made, particularly in the product development and introduction front, you've clearly run ahead on share of a number of HVAC competitors over this timeframe. But now we're seeing some of these other guys actually stepping up their own product introductions very aggressively, stepping up their own channel investments apparently more aggressively. Do you see the competitive environment getting more intense at all? Any forward thoughts on how that might impact the broader environment pricing, et cetera, your ability to [indiscernible]?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah Steve. Steve, thanks. It's hard to look back now over nine years. It seems like it's a long time to look back. But one thing that we've been consistent about is just the level of investment that we've been pounding through every year on good ROIC projects. As Sue mentioned, stepping up on capital in those areas, the innovation pipeline looks solid. We had a lot of introductions in 2017, more planned for 2018.

So, I think we do have a positive gap in the technologies and systems that we're putting out in the marketplace. And we've always known that. We've got large competitors out there that are capable as well. So, we intend to just continue to keep the drumbeat moving and keep innovation out in front. So, we know where the competition is at relative to current launches and we know what our pipeline looks like. And I would imagine that we're going to be able to maintain a technology positive gap for some time.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. Great. Thanks. Good luck.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Thank you.

Operator: And your next question comes from Jeff Sprague from Vertical Research. Jeff, your line's open.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Thank you. Good day, everyone.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Hi, Jeff.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

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Just a couple of things, if I could also. Mike, just on the sales outlook, you addressed Industrial. It also seems like it asked the same question about Climate given the way you're exiting here. Is there anything particular in the tone of orders or the forward look that gives you some pause top line in Climate for 2018?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Jeff, when you say some pause, just tell me what you're referring to there.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Well, I'm just looking at order rates that would seem to support maybe more than 3% organic growth in the business for 2018.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah. I mean, the thing we don't know, Jeff, is really the timing of fourth quarter and the first quarter whether it's 2018 or 2019. These large bookings come in very late in the year and we're really trying to assess at this point in time exactly when customers are going to need them. So, it's difficult to predict and then, clearly, carrying 12% increased backlog year-over-year is a great thing relative to the revenue guidance that we've given. These are longer lead large projects that we just need to work through a little more time to understand the exact timing.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And could you elaborate a little bit, Mike, just on your confidence on better China price in 2018? Is that – does that reflect just outright price increase initiatives or is it something that's happening in the mix of the business? Just a little color there to understand how that plays out.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah. We're – so Jeff, we've been increasing price throughout our Climate globally including Climate throughout 2017, the back half of the year in particular. And so, I'm confident the pricing increases because we've, in some ways, priced those projects coming through to the shipment in 2018. I think competitive dynamics there would point to rising prices in China as well. So, I think that markets there are recovering and commodity's been something that's been felt by all competition. So, you're seeing pricing coming through in the marketplace. And I think we've got a pretty good handle on what's happening at least early in the year from a commodity perspective. So, I feel like that gap is certainly going to close across the company in China.

Beginning in the first quarter, frankly, the gap closes and then throughout the year. It's not really a hockey stick at all. I mean, it's not a first half, second half equation. I think that the leverage frankly is fairly linear throughout the year for us.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And then, just a quick one for Sue, if I could. Repatriating 10% or 20% of your cash, so are you suggesting that although you were on a Irish territorial system before, some of your cash was stranded and you're now pulling that back, or was there some other nuance in that comment?

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Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc
A

No, there was no nuance in the comment, Jeff. What that really is is some of our international entities that roll up under the U.S. structure, so the entities report into the U.S. and -whereas previously we had access to our cash through intercompany loans and through other mechanisms, we're going to use the tax reform and the repatriation tax that we're going to pay over the next eight years to bring back a small portion of that cash to the U.S.

And so, you can obviously calculate, this is roughly about $300 million. And the only reason really to signal that is we did not have a lot of cash that we did not have access to or that was a big part of the repatriation. So, I was just trying to give you context on what the amount would be. And the reason it's an approximation, is we have to go through all of the detail works now that we've figured out the amount of tax with what the in-country rules are, how you would go about doing that timing of doing that, et cetera. So, it was nothing more than a nuance to give you an idea of how much cash would come back to the U.S.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Great. Thank you.

Operator: Your next question comes from Steve Tusa from JPMorgan. Steve, your line's open.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Hey, guys. Good morning.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

Good morning, Steve.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Can you just give us a little bit of color on what kind of price you're assuming in the guide here, year over year, just roughly, for the company?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

Yeah, Steve. I'd really tell you that – I'd start by saying that nothing changes around how we target and think about the operating system of the company, trying to get a 20-basis-point, 30-basis-point positive spread off of material inflation. So, all the internal plans and all the incentive plans, if you will, are set to be able to achieve that.

We've essentially thought about the year as being relatively flat in terms of price and material inflation. And we've set in place or in motion productivity ideas on a contingency basis that you could even handle, say, a negative 30 and still be able to achieve the midpoint of guidance. So, we're really set for kind of a minus 30, plus 30 with a spread roughly at zero is how I would think about that.

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Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Okay. And the – and again, you're not assuming flat price. You're assuming some price to offset the commodity, just to be clear on that, right?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

No. It's absolutely price. And on top of that, there is absolutely material productivity on top of that. So, absolutely price.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Is most of that material productivity – is some of that coming from copper to aluminum, or has that kind of already run its course? I know you guys were kind of the head of the game on that front, in Resi, at least. Or is it just blocking and tackling around product design?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

No. It was a number of things, but supplier consolidation to the preferred supplier program helps. That would be a driver. Material usage, so the quantity and gauge of material used. Material change, as you mentioned, would be another one. And then, there'd actually be product design as well. So, all that would contribute to a material productivity number.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Okay. And then, just one last one. You mentioned that in the press release it sounded as if the China headwinds would be with you here in the first half although remedy pretty well in for the full year. You just mentioned that basically you're going to be linear on price cost over the course of the year. Should we think about the year as being any different from a seasonality perspective? And I think, in the past, you've said 45%-ish of earnings in the first half I think 10% to 12% in the first quarter. How should we kind of think about that high level of the seasonality of the year with these dynamics?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc
A

Sequentially on your first question really around pricing material cost inflation, we improve Q4 to Q1. It improves dramatically. You can think about maybe 50 basis points would be something that we would be thinking about in terms of that. So, there's an immediate improvement, I think Q1 and Q4, from that point-of-view.

As it relates to the seasonality, I think you're right. If you go back over four- or five-year average, it runs say 10.5% to 12.5%. I would tell you that at least initially I would be guiding you toward the lower end of that as it relates to just making sure that we've got this all contained around price material inflation and it flows through the way that that it should. So we feel good about what we're doing. But clearly, we fully understand the burden of proof is on the first quarter and so we're prepared for that

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

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Yeah. Well, in the past you guys have smartly set a low bar and beat it. So, kudos to you guys for keeping things reasonable here and not seeming to stretch, so thanks for the answers.

Operator: Your next question comes from Andrew Kaplowitz from Citigroup. Andrew, your line's open.

Andrew Kaplowitz
Analyst, Citi Research

Q

Good morning guys.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Hi, Andy.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

Good morning.

Andrew Kaplowitz
Analyst, Citi Research

Q

Mike, in the past you talked about having good visibility into North American Commercial HVAC market. And it looks like bookings accelerated again in the quarter. Is that just easier comparisons? Did you see any pick-up from hurricane-related work and can you talk about any differences you're seeing in applied versus unitary markets?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Remember quarter four last year for us was – in 2016, was really strong. So, I think that the strong quarter four that we booked on is coming back-to-back really off combined healthy stack of bookings, so that there's no easy comp there at all for us. There's larger projects that we have not planned into 2018 that would dramatically change 2018 and that would create a comp obviously issue for 2019. But there are really no comp issues other than tough comps 2017 to 2018 from that point of view.

Now the visibility really hasn't changed much. Institutional projects take longer. They're something that we work on with customers to help design and specify and then walk, move through the process of tendering and awarding and executing. So, we tend to have more visibility on that and that continues.

Andrew Kaplowitz
Analyst, Citi Research

Q

Okay. That's helpful. And then, you mentioned the Industrial team is doing a good job on margin. But if I look at the incremental margin, it was mid-30s in 4Q. It looks like you're only guiding to sort of mid-20s in 2018. Then you talked about the large engineered order compressors starting to ramp, which you know have been a bit of a drag on margin so – and we know you've taken a lot of costs out of business. So again, is it just kind of conservatism, you got to wait to see how this ramps up but you could have pretty strong incremental margin growth in 2018 if all things sort of set up the way they could?

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Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Well, we feel good about the variable cost leverage and it really depends on how much of the shipments come through in the year and how much fixed cost leverage do we get on that volume. So, it really is something that'll play out through the year for us. But clearly, great 2017 and more confidence kind of going into 2018, 2019 and really confidence around the 2020 outlook that we gave some time ago that this business is really ahead of schedule on that front and performing well.

Andrew Kaplowitz
Analyst, Citi Research

Q

Thanks, Mike.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Thanks, Andy.

Operator: And your next question comes from Joe Ritchie from Goldman Sachs. Joe, your line's open.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Great. Good morning, guys.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Good morning, Joe.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Hey, Mike, maybe going back to that commentary you made on price cost with plus or minus 30 basis points this year. If you think about the major inputs, typically, you guys hedge copper ahead of the year, so I'd be curious to get any details on that.

And then last year, clearly, Chinese steel was a huge negative impact being up, call it, 40% last year. It seems like – where we are today, it seems like that's a lot more manageable. And so, I guess my question is, first, maybe some more details around your assumptions. And then, secondly, what could – kind of what are the biggest swing factors in your mind to maybe even getting positive price costs this year?

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

Joe, let me start out on the material inflation side and what we're seeing in 2018. So, one, there is obviously the Tier 1 commodities that are inflationary, Tier 2; and then there's also other components. So, what I want to point out is that refrigerants are going to be inflationary in 2018 and let's call that about 10% of our overall inflation. We've also got some lead that goes into the Club Car product that will be inflationary.

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After that, as I break it down, what we expect to see is inflation in Tier 1 commodities is going to be about half of the inflation that we see spread between copper, steel, and aluminum. And so, when I think about copper, we do lock copper as we go forward. So we're going to enter any given quarter with about 70% of that locked and we're entering 2018 just under 70% locked on copper for the year. But we do expect that to be an inflationary component.

You're also correct, Joe, that when you think about the globe in terms of commodities and what happened in 2017 and what we also expect to see in 2018 is that Asia is performing differently than prior expectations. So, before 2017, i.e., they did take some steel capacity offline. They've done other things that have kept some of their material inflation actually pretty high compared to what you'd normally see.

And then in the U.S., not having options for steel purchases offshore and using what's happening is another large part of that. So, we do expect to see inflation in copper, aluminum, as well as some steel perhaps in the later part of the year. But I also point out the refrigerant and some of the other components.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Joe, I think about it as, and I've said before, that the nature of 2018 inflation, it seems more manageable to us than 2017. Some of that's got to do with the fact that copper is easier for us to take a look at and lock appropriately, and steel you get a little bit longer view and it's sort of at a level right now where unless there's any trade policy shocks again to the system, we feel that it's a more predictable environment. So, just in general, the nature of the profile of where the inflation is, is a bit easier for us to maintain, including refrigerants.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, got it. That's helpful. Then, maybe just kind of switching gears, going back to Industrial for a second. I mean, you're starting the year in such a better spot than you were last year just with your longer-cycle backlog, and clearly short-cycle trends remain good. When you look at the performance that you got this quarter – this year from a margin perspective, it seems like – I mean, it seems like you're being very conservative with your margin assumptions for 2018.

And so, to the extent you could comment on that and then specifically around what are you getting from a pricing perspective as well on these orders? Because it seems like your competitors are also putting through decent pricing increases.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah. Industrial pricing has been really good. It's been great, and direct material productivity there, it's been less of a factor, too. So, you're dealing with good price and material inflation that's a bit more predictable than it's been on the Climate side. That's all really positive.

Restructuring that we're doing in 2018, roughly let's call it say $60 million in restructuring there. But two-thirds of that really is completed early now in January, and it's about two-thirds of the total, and it's really geared in the Industrial area.

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So, really thinking about how that'll flow through during the course of the year and what the paybacks might look like when complete. There's an opportunity there. I'd like to say there's an opportunity more than there's a risk there, but there's an opportunity there perhaps for us to maybe to do better.

So, I'm really optimistic about what's happened with bookings there, what's happened with the margins being ahead of schedule, and the fact that we've got an early start toward the productivity requirements that we need to have in 2018 and 2019 there.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got it. If I could sneak one more in. Sue, ending share count for the year?

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

For 2018? I've given it.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

2017.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

2017, the average diluted shares was about 253.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Average. But what was -so, that was – what was ending for 12/31?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Joe, we'll come back and grab it on another call.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

Yeah.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

We'll find the number and...

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

All right.

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Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

Yeah. I don't know...

[indiscernible]

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

... another question.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks, guys.

Operator: Your next question comes from Rich Kwas from Wells Fargo. Rich, your line's open.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone. Mike, on institutional projects, you've talked about a couple or three projects that you thought could come online in 2018. Is that embedded in the forecast, revenue forecast or are those pushed out a bit?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

No, they're not. They're not in the 2018 forecast, so that would be upside to the forecast. But they're too big to throw in the number and forecast them. And if they hit, then they're going to be delivered really – some in 2018 but 2019 and 2020. They're going to be multi-year projects.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay. All right. And then on M&A, with regards to the stuff done in 2017, is there a profit number or EPS number we can think about contributing to the guidance?

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

Yeah, Rich. Here's how we look at the M&A. So we talked about that it would be about 1 point of revenue. We also are factoring in about mid-teens EBITDA on those which would equate to about $0.06 cents in 2018 and increasing in 2019 to a $0.15 to $0.16 EPS increase.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

And the EBITDA sort of in the higher-teens closer to 20, really the difference in 2018 is just the step up, but really good businesses.

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Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Right. Okay. And then last one on – you have some high-cost debt, or relatively high-cost debt that's maturing in 2018. I assume that's not factored into the guide, but what are the kind of thoughts around refi-ing that. It seemed like you would be able to refi that at a pretty attractive rate at this point.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

A

That's exactly right. So, our intention is to refinance the 2018 notes that come due in August of 2018. You're also correct it's at 6.75%, and obviously rates are much lower than that at this point. So, we do intend to refinance. We're watching the markets and also being very conscious on any early break premiums, and making sure that we've got the right mix there. But we do intend to refinance those.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay, great. Thank you.

Operator: Your next question comes from David Raso from Evercore ISI. David, your line's open.

David Raso
Analyst, Evercore Group LLC

Q

Good morning. On the price cost, it hasn't been positive year-over-year since 3Q 2016. But what you're saying for 2018 given the first quarter, I suspect there's a quarter coming up who is in the base case that you see a turning positive again. Can you give us some sense of the cadence, how we think about that? Is that kind of a post-China sell-through and it's more of a third quarter back half or could that even be on the table for as soon as 2Q at least as your base case guidance?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah. I mentioned, Dave, that quarter four or quarter one sequentially is probably 50 basis points better, and for the full year it gets flat. Quarter one would still be a negative relationship so it does imply sort of second, third, fourth quarter improving. And you'll see that improve throughout the balance of the year as shipments are made in Q2, Q3 and Q4, on pricing already established and material costs that hopefully we've got a handle on the inflationary numbers. So, they sequentially get better throughout the year.

David Raso
Analyst, Evercore Group LLC

Q

And just so we understand and get comfort with the 50 bps improvement from 4Q to 1Q, so basically 4Q is down 80 bps, you're thinking the first quarter, call it 30 bps. How much of that improvement is what's happening in China or how much is it your price actions you took to start this year and sort of what you're seeing year-to-date on price costs in the backlog?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

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Well, it's all of the above. But if, say, 50% of the whole price material cost relationship was China and if you throw the Middle East in there, you can say it's closer to 70% is China and the Middle East. But I would tell you that the China element really proportionally improved throughout the year as with the rest of the world. Pricing environment in China we assume is getting better. That's been our experience so far and as we've highlighted here earlier, we feel like material inflation could – part of that now is somewhat under control with capacity really being not rationalized in the marketplace, and we feel better about that.

David Raso
Analyst, Evercore Group LLC

Q

And not to push a little bit, but again, of that improvement, how much is that something you're sort of seeing in the backlog today domestically? How – we haven't – in a way, it's still deteriorating, right? We've gone from 50 bps, 50 bps, 70 bps, now 80 bps.

Even a second derivative improvement will at least start to add some credence to, hey, we're maybe getting through the worst of price cost. So, I think your first quarter comment's significant. It's positive if it can develop. I'm just trying to understand exactly the line of sight on that. I mean how much is it?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Of course, sure.

David Raso
Analyst, Evercore Group LLC

Q

[indiscernible] the orders coming in today have a better price cost.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah. In a Commercial space, quarter one, we're shipping what we've already booked. So, we feel like the pricing there is pretty well established at this point. There is book-and-turn, but where there's book-and-turn, it's typically dealt with by list prices. So, think about unitary product is going to have more of a list price than applied which is going to be very project-specific. Well the applied project-specific which has been quoted third quarter, fourth quarter and shipping in the first and second quarter, the unitary had price increases go through as did our competitors.

David Raso
Analyst, Evercore Group LLC

Q

Yeah. It just seems the unitary market is seeing a little bit of price realization to start the year, and the applied, as you said...

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah.

David Raso
Analyst, Evercore Group LLC

Q

...has already been booked. So I'm just trying to make sure what the framework here looks like.

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Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yeah.

David Raso
Analyst, Evercore Group LLC

Q

There clearly should be a second derivative improvement. No doubt. Price cost, 1Q versus what we just saw, but the line of sight given you have the applied, the unitary feels like what it's doing in the channel, China sort of the wildcard, we really should see, hopefully, it is the full 50 bps, right? I mean this doesn't feel like that's a fake guestimate, but seems that something you have a good line of sight for the first quarter, that there was some kind of...

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Dave, David, something would really has to change in the first quarter here, in the last couple of months for that to really change my guidance to you here.

David Raso
Analyst, Evercore Group LLC

Q

Okay. And I think quickly...

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

And I don't know what that would be at this point.

David Raso
Analyst, Evercore Group LLC

Q

Just real quick, on Thermo King domestic, I see you have North America trailer down for 2018. Lately, you've seen – I know they're lumpy, but lately, you've seen some better orders out of the domestic market. Is Thermo King's trailer backlog right now not seeing any of that? Is there a bit of a tick-up, but it's just too large a hole to kind of dig out of to be flat to up for the year? Just trying to understand that guide versus what we've seen of late.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Yes. We've become less dependent around growth and margin for North American trailer. We're really just utilizing the Act data here. So, we're not going to try to guess any more than Act on that, and it always comes down to which customers are ordering from who. And so, it's too hard to predict at this point in the year. But Act is calling the market down, and we're just reflecting what they're saying.

Operator: And your next question comes from Joel Tiss from BMO. Joel, your line's open.

Joel G. Tiss
Analyst, BMO Capital Markets (United States)

Q

Snuck on there. I wanted to ask sort of a little more structurally about the enterprise initiatives in – I guess my thought is maybe that they're running out of steam a little bit but I wanted to ask it more about the flexibility. Is

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there a way to increase the flexibility when you see changes in the market, and I'm just kind of thinking about in the future maybe we're going to see some headwinds just from the cycle.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

A

Joe, there's no way that we're losing steam on the productivity ideas that we've got across the company. In fact, we're attacking parts that we haven't attacked in the past, warehousing logistics, G&A costs where the profile of the company has changed over the years. Now, we're catching up on some of those areas. So, I don't – in a short time we've got here, it'd be difficult to tell you about all the areas we've got. But I've got confidence that we're not running out of any steam here at all in productivity.

Operator: And I'd now like to turn the call back over to Zac Nagle for closing remarks.

Zachary A. Nagle
Vice President-Investor Relations, Ingersoll-Rand Plc

We'd like to thank everyone for joining us today. We'll be around in the coming days and weeks to take any questions that you may have. And I think Mike also wanted to make one closing comment as well.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Yeah. Just one last comment. This is Joe Fimbianti's last quarterly call with us. And from all of us at Ingersoll-Rand and many of the people that you've known over the years, Joe, on the call, thank you for 41 years, 120 earnings calls beginning in April of 1988. We wish you and your wife a great, long, healthy retirement, Joe. Thank you.

Joseph Fimbianti
Former Director-Investor Relations, Ingersoll-Rand Plc

Thank you, Mike. It's been an honor.

Zachary A. Nagle
Vice President-Investor Relations, Ingersoll-Rand Plc

Thank you, everyone.

Operator: And this concludes today's conference call. You may now disconnect.

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