

**Ingersoll Rand 1Q19 Earnings Call**  
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**Joseph Alfred Ritchie** *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

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**PRESENTATION**

**Operator**

Good morning. Welcome to the Ingersoll Rand's 2019 Q1 Earnings Conference Call. My name is Tiffany, and I will be the operator for the call. The call will begin in a few moments with the speaker remarks and then a Q&A session. (Operator Instructions) Zac Nagle, Vice President of Investor Relations, you may begin your conference.

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**Zachary A. Nagle** *Ingersoll-Rand Plc - VP of IR*

Thanks, operator. Good morning, and thank you for joining us for Ingersoll Rand's First Quarter 2019 Earnings Conference Call. This call is being webcast on our website at [ingersollrand.com](http://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 description of some of the factors that may cause our actual results to differ materially from anticipated results.

This presentation also includes non-GAAP measures, which are explained in the financial tables attached to our news release.

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

With that, please go to Slide 3 and I'll turn the call over to Mike. Mike?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Thanks, Zac, and thanks, everyone, for joining us on the call today. Our global business strategy is at the nexus of environmental sustainability and impact. The world is continuing to urbanize while becoming warmer and resource constrained as time passes. We excel at reducing the energy intensity in buildings, reducing greenhouse gas emissions, reducing waste of food and other perishable goods and we excel in our ability to generate productivity for our customers, all enabled by technology.

Our business portfolio creates a platform for the company to consistently grow above-average global economic conditions aided by the strong sectoral tailwinds that I have outlined.

This morning we announced the transaction to separate our Industrial businesses by way of a spinoff to Ingersoll Rand shareholders. And then combining with Gardner Denver to begin a leading global industrial company and to maintain our climate control assets to create a premier pure play climate business. Our pure play climate business squarely focuses 100% of our portfolio at the nexus of sustainability and impact, where our products and services can have the most significant impact on the global challenges I outlined earlier. The press release and presentation outlining the transaction in detail is on the Ingersoll Rand website under the Investor Relations section. We also held joint a call with Gardner Denver management this morning at 8:00 a.m. and replay of the webcast will be available on our website. So I'm not going to spend any time discussing the transaction further on this earnings call. We will however, be taking Q&A related to both our Q1 earnings and this morning's announcement during our Q&A session following our prepared remarks.

Moving to Slide 4. We're off to a strong start in 2019. Focused and consistent execution of our business strategy enabled us to deliver top tier revenue growth, margin expansion and EPS growth in the first quarter. We saw strong leverage from both top to bottom on the P&L with 8% organic revenue growth leveraging up to 27% EPS growth in the quarter.

We delivered another quarter of robust revenue growth led by our climate segment despite tough growth comps from the prior year quarter. Climate's 10% organic revenue growth in the quarter was as high as any quarter in the past 2 years and was compounded on 8% growth in the prior year. Industrial's organic revenue growth was up 3% representing good growth against the top 9% growth comp in the prior year.

Headline bookings growth for the Enterprise and for Climate of negative low single-digits is driven by significant year-over-year decline of bookings isolated to our Transport business,

which I'll lay out in more detail in a minute. In order to more fully understand the health of the portfolio, we believe it is constructive to look at the underlying bookings growth trends in each of our key business units. For example, our commercial HVAC North America, commercial HVAC Europe, residential HVAC and Compression Technologies North America business reached up in the mid- to high-single digit range in the quarter. China had flattish bookings in the quarter but still healthy when you consider the growth comp in the prior year quarter was in the mid-20s growth range. As we expected, Transport bookings were significantly lower in Quarter 1 after the extraordinary bookings growth we saw in every quarter of 2018.

As an example, in 2018, we booked 1.5 years of North America trailer backlog and 2 years of auxiliary power unit backlog resulting in record Transport backlog at the beginning of 2019. With the record backlog and continued underlying market demand, our revenue outlook for Transport looks healthy into 2020 with the key constraint being trailer manufacturer's capacity. As you've seen, the ACT data is consistent with this view showing very high levels of demand through their forecast horizon, which goes out to 2020.

As I mentioned earlier, margin expansion was strong in the quarter with adjusted enterprise margins expanding 90 basis points. We're very successfully mitigating tariff and inflation impacts through price with the price risk of material inflation spread of 70 basis points. Operating leverage was healthy at 26% and slightly ahead of our guidance for 2019 of 25%.

Overall, our end markets are healthy and performing largely as expected. As we discussed last quarter, we continue to monitor geopolitical uncertainties related to Brexit in Europe and tariffs and trade in China.

In Quarter 1, we also continued to execute our balanced capital deployment strategy. After investing in the business we deployed approximately \$380 million between dividends and share repurchases. Lastly, while still early in the year and with the cooling season on deck, we haven't seen anything through the first quarter that diminishes our confidence in our full year guidance. We're bullish on the effectiveness of our strategy, bullish on our end markets and bullish on our ability to execute in 2019. As a result, we're raising our annual guidance to the top end of our prior adjusted EPS range of \$6.15 to \$6.35 to approximately \$6.35.

Please go to Slide 5. As we discussed in a previous slide, we delivered robust revenue growth led by our climate segment with organic growth across all business units. We also delivered strong bookings growth in virtually all of our key businesses with Commercial HVAC North America, Commercial HVAC Europe, Residential HVAC and Compression Technologies all up mid- to high-single digits. These results reflect continued strong execution of our strategy, capitalizing on healthy end markets.

Please turn to Slide 6. We've outlined a number of takeaways for each major business in the next 2 slides and you can read through those for some additional color. The most important thing I'd like you to take away from these slides however, is that our outlook by key business is largely unchanged when we gave guidance in January and we haven't seen anything that will cause us

to change our outlook for the year at this time.

Turning to Slide 7. Again, we've added some comments to provide additional color on these slides and you can read through those. The key takeaway remains that we didn't see anything significant in Quarter 1 that will change our outlook for the year at this juncture and now I'll turn it over to Sue to provide more details on the quarter. Sue?

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**Susan K. Carter *Ingersoll-Rand Plc* - Senior VP & CFO**

Thank you, Mike. Please go to Slide #8. I'll begin with a summary of a few main points to take away from today's call. As Mike discussed, we drove strong operating and financial results in the first quarter with adjusted earnings per share of \$0.89 an increase of 27% versus the year-ago period. Our Q1 performance gives us increased confidence in our ability to execute against our full year growth and margin targets. As a result, though it was still early in the year, we are raising our full year adjusted continuing earnings per share guidance to approximately \$6.35 at the high-end of our prior guidance range.

First quarter organic revenue growth was solid in both our Climate and Industrial segments. Bookings in healthy end markets drove 105% book-to-bill and generated record backlog for the enterprise.

Climate organic revenues were very strong, up 10%, building on a Q1 2018 organic revenue growth of 8%. Organic revenues were particularly strong in Commercial HVAC North America and Europe.

Transport organic revenues were also strong. Residential HVAC and China HVAC were up low single-digits and flattish respectively, against tough prior year comparisons of low-teens growth and greater than 25% growth respectively.

As Mike discussed, HVAC organic bookings were strong with mid-single to high-single digit growth rates for commercial HVAC North America and Europe and for Residential HVAC.

In our Industrial segment, we delivered healthy 3% organic revenue growth compounding on a 9% organic growth rate in the prior year. Organic bookings growth was healthy in the first quarter with Compression Technologies North America bookings up mid-single-digits. China growth was flattish with demand strengthening throughout the quarter providing cautious optimism going forward.

When we're with investors, we often get questions around free cash flow timing for the year. Consistent with typical seasonality, we are building inventory in the first half of the year to support the expected growth during the cooling season and we expect cash flow improvement to ramp in the second half of the year. Our free cash flow targets remain unchanged. Leveraging our business operating system across the enterprise, we continue to manage direct material, tariff related and other inflationary headwinds in the quarter. During Q1, we expanded adjusted

operating margins 90 basis points and delivered 26% operating leverage slightly ahead of our full year expectations.

Importantly, we also delivered on our dynamic capital allocation strategy in Q1. We deployed \$128 million in dividends and \$250 million on share buybacks as our shares continued to trade below our calculated intrinsic value. Looking forward, we expect to consistently deploy 100% excess cash over time.

Additionally, our offer to acquire Precision Flow Systems was accepted by the seller during the quarter. Expectations for regulatory approval for the pending acquisition remains unchanged by midyear, 2019.

Please go to Slide #9. We delivered organic revenue growth of 8%, adjusted operating margin improvement of 90 basis points and adjusted earnings per share growth of 27%. We drove strong organic revenue growth across all businesses and in virtually all products and geographies. Continued disciplined focus on pricing and productivity actions enabled us to effectively manage inflation and tariff-related headwinds and drive margin expansion across the enterprise.

Please go to Slide #10. Our climate segment delivered another strong quarter of operating income growth enabling us to drive solid year-over-year earnings per share growth in the quarter. Our Industrial segment delivered solid results that were negatively impacted by a supplier disruption in our Small Electric Vehicles business. Excluding the disruption Industrial adjusted operating margins were up 50 basis points. Of note, our full year Industrial margin outlook remains intact. Below the operating income line, other expenses included expected pension cost increases plus a legal settlement related to a legacy business, which negatively impacted results by approximately \$0.05. All in, we delivered strong 27% earnings per share growth in the quarter.

Please go to Slide #11. Strong execution drove 90 basis points of adjusted operating margin improvement in the quarter. Price versus material inflation was positive for the fourth consecutive quarter. Pricing expanded margins by 70 basis points reflecting strong carryover price from 2018 and incremental pricing actions in 2019. Consistent with our full year expectations, we delivered productivity to exceed other inflation. We continue to reinvest heavily in our business, incremental Q1 investments of approximately 50 basis points were fairly evenly weighted between growth and operating expense reduction projects.

Please go to Slide #12. Our climate segment delivered another strong quarter with 10% organic revenue growth and adjusted operating margin expansion of 130 basis points. Consistent with our expectations, results were strong across the segment.

Please go to Slide 13. Our Industrial business delivered solid organic revenue growth of 3% against a tough comparison of 9% growth in Q1 of 2018. As I mentioned previously, our Industrial segment margins were negatively impacted by a supplier disruption in our Small

Electric Vehicles business. Excluding the disruption, Industrial adjusted operating margins were solid up 50 basis points. We expect the supplier disruption to be resolved during Q2 with full year Industrial margin expectations unchanged.

Please go to Slide 14. We remain committed to a dynamic capital allocation strategy that consistently deploys excess cash to the opportunities with the highest returns for shareholders. We maintain a healthy level of business investments in high ROI technology, innovation and operational excellence projects, which are vital to our continued growth, product leadership and margin expansion. We have a long-standing commitment to a reliable strong and growing dividend that increases at or above the rate of earnings growth over time.

We continue to make strategic investments and acquisitions that further improve long-term shareholder returns like the pending PFS acquisition announced during the quarter. We are committed to maintaining a strong balance sheet and BBB rating that provides us with continued optionality as our markets evolve. We continue to see valuing share repurchases when shares trade below their intrinsic value and in Q1, we deployed approximately \$250 million.

Please go to Slide 16. With the extraordinary bookings in our Transport business in 2018, we thought it might be useful if we gave a better background on what drove the outsized orders and how to assess the impact to the overall enterprise. During 2018, high trucking capacity and the use of electronic driver logs drove strong demand for Class 8 trailers throughout the year. Additionally, the tax law changes under the U.S. Tax Cuts and Job Act further incentivized trucking companies to invest in their fleets. With such strong demand, OEMs experienced capacity constraints driving trucking companies to place orders months in advance. As the trucking companies placed preorders for trailers, they also placed preorders with us for trailer refrigerated units and auxiliary power units. As Mike mentioned earlier, we booked 1.5 years of trailer unit orders and 2 years of auxiliary power unit orders resulting in record Transport backlog at the end of the year. With the record backlog, and an underlying healthy market of revenue outlook for Transport is healthy into 2020.

Please go to Slide 17. Since Q2 of last year, we have effectively managed both material inflation and tariffs delivering price cost margin expansions in each quarter. With that track record, we frequently get questions around our price cost outlook for 2019 and I'd like to give you some background to understand how we expect the price cost to play out.

First of all, we're off to a good start in Q1 with strong carryover price from 2018 and incremental 2019 pricing actions, price cost delivered 70 basis points of margin expansion in the quarter. As we move into Q2, our year-over-year pricing comps get tougher and by the time we get to the back half of 2019, we'll be lapping our full pricing actions from the prior year. Any incremental price at that point will be mainly from 2019 pricing actions.

For the inflation part of the equation, we expect continued commodity inflation in Q2. We expect moderating inflation in both Tier 1 materials and Tier 2 components in the second half of the year. During 2018, tariffs ramped throughout the year with the implementation of Section 232

tariffs followed by List 1, 2 and 3 Section 301 tariffs. As such, we won't fully lap current Section 301 tariffs until Q4 of this year. All in, we have successfully managed inflation and tariffs and we expect to continue to do so to a purposeful active use of our business operating system. Net, we continue to expect 20 to 30 basis points of positive price versus cost in 2019.

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

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Thanks, Sue. Please go to Slide 18. In summary, we're pleased with how 2019 is shaping up. We expect to deliver strong revenue, EPS and free cash flow in 2019. Looking forward, we believe the company is extremely well positioned to deliver strong shareholder returns over the next several years. Our global business strategy is at the nexus of environmental sustainability and impact. The world continues to urbanize, while becoming warmer and more resource constrained as time passes. We excel at reducing the energy intensity in buildings, reducing greenhouse gas emissions, reducing waste of food and other perishable goods and we excel in our abilities during productivity for our customers all enabled by technology.

We have been investing heavily for years to build franchise brands and to advance our leadership market positions to enable consistent profitable growth. We have an experienced management team and a high-performing culture that breeds operational excellence into everything we do. And lastly, we're committed to dynamic and balanced deployment of capital, and we have a strong track record of deploying excess cash to deliver strong shareholder returns over the years.

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

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Your first question comes from the line of Jeffrey Sprague with Vertical Research Partners.

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**Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner***

Mike, I was on the first half of the first call this morning and not the back half. I looked through some of the notes but I was wondering if you could just spend a minute or 2 to kind of talk about the range of the strategic comparatives for kind of new climate company and obviously, not mentioning things by name but where do you see the portfolio headed? What are some of the interesting opportunities maybe beyond the kind of excellent organic execution that you have?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, Jeff, first, to you and to all the folks on the call today. We're occupying a lot of your time today so thanks for the coverage and for following us. The answer to your question really the strategic imperatives don't change for climate. The strategic focus around pinpoint the strategy and at the investments and really create the most agile structure that we can come up with from a customer perspective is critical and then we'll continue to invest like we have in innovation and in the channel. So nothing changes, sharper focus on running faster and being successful.

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**Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner***

And just a quick nuance on the separation costs. It appeared when GDI was mentioning the \$450 million costs to achieve, they mentioned the \$100 million separation costs for IR? A little confused by that. Are they somehow eating or absorbing the stranded costs associated with your side of the equation? Could you clarify that?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

Yes, Jeff, no. That's not what they were intending. So the \$450 million is the cost to achieve the synergies and then they have an additional \$100 million that is their advisers and their costs to actually separate Ingersoll Rand and include the Ingersoll Rand businesses and other stuff. So in other words, they'll have tax and all of those things as well and then it came out that way simply because they're taking the name. But that is their cost, onetime cost of the transaction and the \$450 million is the cost of achieving the synergies.

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**Operator**

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

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**Nigel Edward Coe *Wolfe Research, LLC - MD & Senior Research Analyst***

Mike, I know you want to keep this kind of more in the cool term of the outlook but again I wasn't on the Q&A portion of the call as well but a bit curious maybe I just want to see if you look at the free cash conversion for the past 2 years, was there a significant difference between Climate and Industrial? And I guess, my question is how does standalone Trane free cash flow look on go forward basis?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

So the answer, Nigel, is there's not a significant difference between the Climate businesses and the Industrial businesses. So what we challenged the business with, and actually they deliver, is achieving 100% of operating income as their operating cash flow and then as I look through that and convert operating cash flow into free cash flow, again, they're both in sort of, that 1% to 2% range on CapEx. From a tax rate perspective, I would call tax for Climate to be slightly on the lower end of our range and Industrial slightly higher but what you end up with as I parse through all of that is that both of those businesses deliver about 100% of net income on free cash flow.



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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Nigel, I would say that once we get closer to the actual effect of the spin and ClimateCo. giving some guidance, clearly, that quarterly working capital will change a bit because of the seasonality of the business but other than that, Sue's exactly right on point with 100% or better conversion, which is the goal.

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**Nigel Edward Coe *Wolfe Research, LLC - MD & Senior Research Analyst***

Understood. And then just switching to resi, you maintained a low to mid-single-digit growth, sounds like 2Q spelled out okay, but if we maintain this kind of weather pattern through the summer, would we expect to be more in the low mid-single digit zone? And then on top of that, have you seen any market share shifts so far this year?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

We've seen a good market so far this year and even with the weather being less supportive, it was still a good quarter for us. So good revenue growth in the quarter, good bookings, good margin expansion. New regulations I'm sure helping with that and then also surprising opportunities on new furnace regs. In terms of share, really if you look at any rolling 12 month period, pretty much any quarter over the last 4 years, we gained share and we would have gained share again over the last rolling 12 quarters so I think it will be the fifth year in a row that we'll see pretty significant share gain again.

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**Operator**

Your next question comes from the line of Steve Tusa from JPMorgan.

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**Charles Stephen Tusa *JP Morgan Chase & Co, Research Division - MD***

I wasn't also was not on the call this morning. I'm just curious as to the timing of this, I mean, I know that this is something that probably was evaluated several years ago when you split off Allegion. I don't know if somebody already asked this earlier in the morning but what was kind of the mindset around why now?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes. I think that when you look at the company today, the dyssynergies that we see about \$150 million in terms of integrating the company from manufacturing and sourcing to engineering to shared services. And so spinning off a company without something of scale to merge with and develop synergies is a pure headwind so when you find a situation like this, you got a \$250 million synergy opportunity not including the growth side of this \$250 million on the cost side of this thing, it's really fully offsetting any headwind we have on the dyssynergies also avoiding that

public company duplicate startup costs around that and then allowing us to really streamline the go to market in the Climate space so it takes some timing, some valuations that work, the math has to work and it takes a willing and good partner. It takes confidence on both sides that the management team going forward can execute on the strategies so that our confidence and the go forward industrial company team as well as our confidence in the management team at ClimateCo being able to execute that. So all things point to the right valuations, right timing and the right partner to be able to effect a net positive versus a dys synergy number in the math.

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**Charles Stephen Tusa *JP Morgan Chase & Co, Research Division - MD***

What's your updated thoughts on the, I guess, the daily question around HVAC industry consolidation? I know that your view in the past has been that you can't kind of narrowly define it as just U.S. markets. Do you see kind of an open playing field here on that front? Or after further review, there aren't a lot of opportunities?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Well, nothing's changed in our view that we've been talking about for 2 or 3 years around this and in terms of the market and consolidation and what could happen between willing partners that want to do that but I will tell you that strategically, it's the same place we were and we don't need to do something, we could have if we made sense for shareholders, I think we've got great optionality either way it goes. But it does create a much sharper focus and ability for us to think about being just faster in everything that we do from a customer, and from an innovation perspective and to me, it's really exciting to think about what's possible going forward as a sharper focus to as a Climate company.

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**Charles Stephen Tusa *JP Morgan Chase & Co, Research Division - MD***

One last one, I know you don't want to give quarterly order guidance but just should we just think about the comps for the rest of the year and a model that out? I mean, I know it can be lumpy. Is there any unusual lumpiness that you want to get out in front of for the second quarter just to kind of set expectations, I know the negative 3% was a little bit weaker than I was expecting but just curious as to how you see the pipeline kind of playing out over the course of the year is there anything we should think for second quarter on the climate order front?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, Steve, thanks for the question. That's why we try to give a bit more color this quarter around. The other pieces of this because when you think about the North America business both res and commercial, it was really an excellent quarter again mid to high single-digit growth rates. North America is particularly strong. We saw strength in office. We saw strength in Industrial and a subset of that is really data centers driving that component. We see the manufacturing warehouses, labs as well. Applied no surprise there that continues to be running incredibly well with great backlog and great order rates. Even China sequentially, and this would apply both to

the Industrial businesses and the HVAC businesses showed sequential progress in the quarter where we came out of March with strong bookings and some healthy optimism around that. Europe was a little bit weaker but there's a lot going on in weaker -- I mean, Europe, and I think that from an HVAC perspective in Europe, we'll continue to capitalize on the mega trends that are driving growth outside sort of the general economy but it has impacted things around Transport and some of the Industrial economy in Europe as well. The Industrial market seems to be doing okay, as well. There again is some moderation in China, which we felt was positive. U.S. Industrial productivity remain strong. Capacity utilization's are at record levels in the U.S. CapEx projections in the U.S. are low to single-digits so it supports our forecast there. In the EU, the PMI didn't decelerate further so that's I guess a bit of a win that it sort of plateaued, flattened. In China, PMI it's still down again but was up sequentially so things are looking better, I think in China.

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

And Steve, if I can add a broad comment on top of the excellent color that Mike gave. If you think about Transport orders throughout 2018, they got tough comps going in all of those quarters. I would also say that if you think about the enterprise and where our growth came from in 2018, the second quarter, I don't care, which business you have is a tough comp when you look at it. So again that's not to indicate that we're not going to have great bookings growth but those tough transport comps are going to be there in the second quarter with a particularly high enterprise type of growth in 2018. So tough comps.

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**Operator**

Your next question comes from the line of Julian Mitchell with Barclays.

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**Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst***

Maybe a first question on the incremental margins firm wide. I think you said they were around 26% in Q1. The year is 25% included in the guide though is sort of moderation from price cost tailwind to margin. So maybe just explain what countervailing factors kind of step up through the balance of the year to offset that diminishing tailwind from a price cost.

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

So Julian, as you think about it, what is going to happen in actuality is you're going to start lapping the price in the second quarter. So in other words, the great pricing that we saw carryover from 2018 into 2019, as you go throughout the year. You've got tougher comparison, the overall pricing dynamic, which is why we talked about that price cost really sort of, moderates as you go throughout the year and gets you back more into that 20 to 30 basis points spread type of environment. And again, you've got a first quarter we'll see what's going to happen as we go into the cooling season but it really is the pricing comparisons and the material inflation sort of staying where it's at.

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**Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst***

Sure. But does the tailwind from volume mix or the tailwind from productivity, does that step up later in the year? And that kind of mitigates the shrinking tailwind from price cost?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

Yes, it's always the productivity. We're going to get more ideas as we go throughout the year and it does ramp up. So it balances throughout the portfolio between price and material inflation and productivity and other inflation.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, Julian, too, I guess, last thing I'd say is if there's a place in the guidance where there could be opportunity it's certainly in price cost, which we continue to surprise ourselves with what we're able to affect there and still continue to gain share in the process. So we're careful about that but that's going very well.

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**Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst***

And then just the second topic. So you emphasized Transport order comps very tough throughout the year. That's very clear. Just on the revenue side of Transport. Just wondered how you're thinking about that this year maybe just pause out kind of expectations around the Americas and then I think EMEA, you thought about a flattish market previously for this year.

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

Yes, so I guess I would start the conversation by saying that with the amount of backlog that we build in North America trailer and in APUs throughout 2018 and again in the first quarter of 2019, we've got really solid footing on revenues going into 2020. So the only point on the tough comps was that there wasn't just 1 quarter of Transport bookings. So I would expect just as you said that we'll see strong North America revenues coming off of the backlog that we have in North America and APUs. Europe is going to be slightly impacted by Brexit and perhaps not as strong with the backlog and the overall orders. So now you say Transport's going to have a very good year in 2019 and 2020.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, Julian, I think one way to think about it is so a little bit it's a little bit like the Applied business. Right now you're booking this backlog. You've got great visibility into it, and take out the noise of the compares on the bookings because of Transport, you end up with this mid-single-digit revenue stream, which looks pretty solid through 2020.

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**Operator**

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

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**Joseph Alfred Ritchie *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

So I want to piggyback on that price cost question, Sue. I just want to make sure I understand what's embedded in the guide for this year and so at 1 point, I think given last quarter, you guys were expecting a step up of 25% on the tariffs side. So I wanted to make sure that, that was still part of the guidance. And then secondly, what are you anticipating from a pricing standpoint given moderating commodity inflation this year?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

Yes. So as you think about how we thought about price costs going throughout the 2019 period is we obviously, have some tail wind coming off of the 2018 pricing and we obviously have left the tariffs that we put in the original guidance in. So they might have moved out a month and that might have created a little bit of less material inflation, if you will, in the guidance but it's not significant. So again what we talked about when we gave the guidance and what we've continued to talk about is that if the tariffs don't materialize, our pricing will adjust. If the tariffs materialize, or they're greater or more inflation we'll adjusted as needed, but the pricing that's in there is our normal pricing for what we see. And again, if the tariffs don't materialize, we'll not do price increases to cover something that didn't actually happen, if that makes sense.

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**Joseph Alfred Ritchie *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

Yes, no, that makes sense. So I appreciate the clarification and if I could piggyback on some of the order discussion that we've had so far, Mike, you mentioned in your prepared commentary that China commercial strengthened through the quarter. I was wondering if you can maybe just provide a little bit more commentary around what commercial HVAC did regionally throughout the quarter as we exited.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, I mean, starting with China, it's demand strengthened throughout the quarter and it's a testament to what's been happening with the direct sales strategy to drive those above market rates. In China, generally, we saw acceleration in even auto and pharma. So that was a positive and it was thus concern both in HVAC and in the compressor business around the export productivity so it's certainly a more positive constructive environment there. The rest of Asia with the exception of Taiwan is pretty good for HVAC. So India, Indonesia, Vietnam, all... Thailand – all positive. Korea is a bit weak for us so there. Europe continue to outperform the market. It's not really so much connected to GDP as this connected to the regulations and around some of

the transformation there. We're doing a very well in Latin America but it's difficult because if you think about currency translation there, you get hurt in a lot of places but it's a healthy business in Latin America from an organic perspective. And the U.S, continues to be strong and I think we'll stay strong for the balance of the year in all aspects of the HVAC business.

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#### **Operator**

Your next question comes from the line of Andrew Obin with Bank of America Merrill Lynch.

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#### **Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

Congratulations on the deal. Great quarter. Just a question on orders not to beat the sort of horse to death but given how tough the comps get particularly in the second half, should we expect a couple of more negative comps on orders this year? Overall, orders turning negative for the company, bookings?

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#### **Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

At first, it's hard, we don't really forecast sort of that way around orders is sort of around the pipeline. So Sue, I don't know if you've done the math on that.

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#### **Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

Yes, I think, Andrew, when you think about it. You just did modeling with those comparisons, you've also got a large HVAC order that was in Q4. So if I pull that out as well as the Transport pieces, again, you're going to get enterprise bookings that are going to average out. So I don't really see an issue with that in the back half of the year. So what I pointed out to you is the Transport had heavy orders throughout the year in 2018 and tough comps that the overall business had a really excellent booking quarter in the second quarter but also the fourth quarter had a large commercial HVAC order. So if you take that noise out of there, I think we have very good bookings and if you think about Q1, I mean, you had Q1 bookings that exceeded our revenue, the 105% ratio, that bookings ratio, book-to-bill ratio that I talked about so I wouldn't get concerned about that. I think it's just more color for your expectation.

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#### **Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, Andrew, I think that before I add color, we'll just need to provide more color, so I don't think the story is going to be in the headline. Bookings is going to be understanding the health of the component and HVAC is in a totally different trajectory and globally, on a different by region trajectory than it would be for Transport North America. We've just gone through heck of a boom here in '18 and early '19 timeframe. So we'll give more color to help you understand that.

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#### **Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

And as I said, I also missed the Q&A portion of the earlier call but can you talk about the little bit concentrated portfolio HVAC. What is happening with the Mitsubishi JV and is anything in your market in North America?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

It's been a great success. The JV itself. So it's been something that I'm glad we did and in fact, I'm heading to Japan next week and look forward to sitting down with the CEO and going through the performance at this point but we couldn't be any happier with what has transpired at this point in time. But really in our view #1 in the market particularly with we're #1. And the dynamics are the same. Where you're seeing good ductless growth in the U.S, slightly above the ducted revenues and you're seeing ducted revenues outside the U.S. and typically ducted markets growing faster than ductless revenue so it goes to the theory that at the end of the day, it's going to be companies and channels that can sell a full suite of products and services that are going to win. So we're very happy with that joint venture and I would say exceeding expectations.

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**Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

But effectively within this product category, you're going to do everything within the context of this venture within that technology, right? You're not going to do something by yourself?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Well, we do a lot by ourselves today. I guess that probably helps put some color on that. For really sort of the premium end of the market, Trane Mitsubishi is what we're going with. For the entry-level point in the market, we've got everything from making it ourselves, doing both variable refrigerant and variable waterflow systems along with the duct offerings in Europe, that we produced ourselves all the way through to some source product we use in various applications around the world. But when we think about the premium offering, that's going to be a Trane Mitsubishi offering for us. There's a lot of segmentation here, which I appreciate the question because that is an important factor in understanding the segmentation in the market to make sure that you've got a product and the solution for every part of the world in every price point that we need to plan.

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**Operator**

Your next question comes from the line of John Walsh with Crédit Suisse.

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**John Fred Walsh *Crédit Suisse AG, Research Division - Director***

Congratulations on the transaction announcement this morning. I guess, just thinking about the Industrial margin impact from the supplier disruption. Should we put another \$4 million in our model for Q2? Or would you expect it to be less than that?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

No, we killed that in Quarter 1. So we're good to go. I wouldn't put it in the model... that one is complete. Run to ground.

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**John Fred Walsh *Crédit Suisse AG, Research Division - Director***

Got you. And then just thinking about the good growth we've seen in Climate last year. Over the last several years, I mean, how was the supply chain on the climate side of the house? Are there pockets where things are stretched? Or do you feel very comfortable that there's -- you have all that taken care of?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Well, I mean, this is been a factor I think competitively and I think we have to win by being able to have the capacity or at least change the playbook and have the playbook with different tact times to be able to hit different customer demand patterns. So this is played out well and we're really proud of what our whole team has been able to accomplish there. It's been tremendous growth and with that being said, sure, you've got suppliers that are stressed in some situations where we need to pay extra close attention and some situations where we're needing, where we can, to be able to carry more inventory.

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**John Fred Walsh *Crédit Suisse AG, Research Division - Director***

And then maybe just one last quick one. I didn't hear any commentary around controls and what that did in the quarter and the trend that you're kind of expecting there.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, services and controls actually continuing both in the CTS business and the HVAC business globally exceed the equipment growth rates. The strategies there are working and are controls growth rate continues to be in that double-digit growth rate. And it's not unusual, I mean, everything you're seeing in terms of products and systems today going as a system controls in our view is really part and parcel to a system that we saw.

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**Operator**

Your next question comes from the line of Tim Wojs with Baird.

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**Timothy Ronald Wojs *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

I want to extend my congrats on the deal as well. Just had a couple of cleanup questions here



on climate. So I guess, relative to overall segment margin expectations for '19, would you expect any of the sub businesses to have any sort of, outside margin performance in 2019 or do you think all 3 sub segments expand margins kind of similar to the overall segment? And then secondly, what was price realization in Climate in the first quarter relative to the 10% organic growth?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, I think Tim, you're saying for Res, Commercial, and TK, do we expect margins to increase? And we do across all 3 of the sub portfolios in Climate. To your second question, I think we're looking for an answer on that.

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**Zac Nagle, VP Investor Relations**

I think price realization was good. We wouldn't write a specific breakout exactly the numbers.

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**Timothy Ronald Wojs *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

I guess, my first question was more of I think the 3 businesses outside margin performance in any one of the businesses? Or should they all kind of expand at a similar level?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Well it depends who you ask. If you ask the presidents running the businesses they'll tell you it's really outsized but from our point of view, they're all doing and they're doing a great job. So no, there's three 3 gold medals that's we're going to hand out at the end of the year.

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**Operator**

Your next question comes from the line of Steve Volkmann with Jefferies.

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**Stephen Edward Volkmann *Jefferies LLC, Research Division - Equity Analyst***

Most of my questions have been answered but Mike, I'm wondering just a very big picture question around cyclical of the global HVAC business. Obviously, some investors are thinking we might be toward the peak of the cycle, things get seem to be pretty good you mentioned a number of secular changes like Energy or regulations or anything like that. But just how would you encourage us to think about cyclical of the remainder co as we go forward now with the next iteration of your life?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Cycles are not telling the story anymore, I mean, you've got to look at the regulations and what's

happening in various parts of the world. You've got to think about a billion more people coming into the middle class and needing air conditioning and the demands of power in the grid and sustainability of all that. You've got to think that 15-plus percent of greenhouse gas emissions are happening through HVAC systems and if you fast-forward, we can do nothing about 25% would be through air conditioning homes and buildings by 2030 on that larger population urbanizing. So the way to solve that is to do what we're doing. We alone with the technology we have today cut out 2% of the world's greenhouse gas emissions just by doing what we're doing today by 2030. You can imagine if 50 other companies join that, you wouldn't have a problem, or at least the problem would be totally recast. So I think this is totally different and then if I take it down to sort of, ground-level today, this is also why the services business are so critically important to us, to help these mini-cycles around what happens with office buildings or institutional, one part of the world, some geopolitical disruption in a part of the world. We'll have to deal with those, but long term, whatever those mini cycles are, the trend is up into the right about what needs to happen in the world between now and 2050 for that matter.

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**Stephen Edward Volkmann *Jefferies LLC, Research Division - Equity Analyst***

Okay. That's good color. And just 1 real specific one maybe for Sue. Is there anything that happens with respect to this transaction? Is there any impact on the free cash flow? Or your ability to repurchase shares as we go forward?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

So the answer is no, there is no impact on free cash flow and no, there is no restrictions on our ability to buy back shares if the prices below our intrinsic value going forward. No.

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**Operator**

Your next question comes from the line of Josh Pokrzywinski with Morgan Stanley.

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**Joshua Charles Pokrzywinski *Morgan Stanley, Research Division - Equity Analyst***

Just to follow-up a little bit on some of the resi questions from earlier, understanding that there is a competitor out there who's fighting to reclaim some share. How does that color your view on what pricing does over the balance of the year and Mike, how do you feel about inventories in the channel right now? I know some of that is company-owned and you manage that and maybe from the independent side, what's your sense on loading levels versus normal?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Yes, I mean, it is normal for us. If anything, you might have seen... well it depends on what competitor is launching the furnace platform, when and when their pricing increases go into effect and you can get some disruptions from quarter-to-quarter but the right way to look at that is not quarter-to-quarter, a longer period of time rolling 4 quarters makes a lot more sense on

that. With that being said, I continue to like our strategy. We've continued to penetrate the market with brands at various price points, with staying in front of regulations, with fully utilized very efficient plant and supply chain structures. So we're going to keep on doing what we're doing and competitors are going to do what they do but frankly, through the first quarter, everything looked great. Everything sort of, price utilization, cost position, bookings, revenue, there's nothing but positive news there from our point of view.

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**Joshua Charles Pokrzywinski *Morgan Stanley, Research Division - Equity Analyst***

Got it. And then just switching over to Commercial. Obviously, some great order and take especially in 2018, I think some large projects you called out particularly in the fourth quarter if I remember right. Should we think about those converting a little lower-margin at a little lower-margin this year just given probably some third party source content, et cetera. And if so, what does that look like? When does that happen? Any color around what that margin mix when those hit would be helpful.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

The easiest way to think about that is those larger projects really have the kitchen sink costed into them. So on a contribution basis, we're making sure it's accretive to the margins trying to post from an op income standpoint. So the gross margins maybe lower but you're talking about all-in costs to execute. So I don't think you see any dip on operating margins.

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**Operator**

Your next question comes from the line of Nicole with Deutsche Bank.

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**Nicole DeBlase *Deutsche Bank - Equity Analyst***

So I guess, maybe starting off with climate. I know you guys aren't updating your organic growth outlook for the full year but obviously, organic growth came in really strong in the first quarter and so 5% to 6% is looking a little bit conservative for the full year particularly since the comps don't really get a lot harder. So if you could just comment on the potential for climate to surprise to the upside for the rest of the year.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

Well, there's a lot of the year left. When you're talking about something less than 15% in the quarter, I think there's a natural hesitation to go out on a limb. I think it's given us the confidence to raise the top end of our guidance but I think we really need to see something more than the second quarter. You're really looking to see July and August to dramatically change that. But I think the first leg of this is a lot of confidence in the first quarter to go to the high end of the range. That's not something we typically do.

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**Nicole DeBlase *Deutsche Bank - Equity Analyst***

Okay. Totally understood and definitely fair. And then I guess, the second one, just a tie-up question on the deal. So the synergy guidance that you guys have provided for the Industrial business, does that include PFS synergies or would those be separate?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

It's all in. It's assuming that PFS with our Industrial portfolio is merged into Gardner Denver and the total of all of the combination is 250.

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**Operator**

Your next question comes from the line of Deane Dray with RBC Capital Markets.

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**Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst***

Mike, congratulations. I just wanted to follow up on the question on PFS. And maybe it got just covered earlier in the first call this morning but is it fair to consider that PFS was the missing piece of the puzzle in order to qualify for the RMT?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

No. It wouldn't have anything to do with the RMT structure. I mean, the way that 2 important strategic assets would be looked at, it had to be looked at independent. So when you think about PFS being something that for a long time, we thought it's a great fit with our fluid business. We had to be prepared in that processes timing to be successful. And then currently and somewhat in parallel as we are having discussions with GDI around the RMT structure, you're thinking about, well, look, if I'm successful one way or the other depending on timing does it make sense in combination, if you will the three businesses, GDI's business plus PFS's business and our Industrial segment and the answer is yes. So we felt like we need to get after that asset because there's no guarantee that we come to an agreement with GDI and if that's the case, we're going to build a bigger fluid management organization and go forward and if we did, then it's going to be even more productive in terms of putting that combination together particularly with the medical segment, which is a lot of common. And so we figured we couldn't really lose in that so we had to work within the processes and we're working it.

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**Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst***

That's real helpful. And then is there -- are there any contingent liabilities or any incumbencies on Climate Remain Co and doing the RMT? I would imagine that if something were happen to the tax pretreatment, that would come back to the ClimateCo. Is there any -- are you restricted on any asset sales or just take us through some of those nuances?

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

It's a -- the answer to your question is no. There is no restrictions to us but it is a complex and nuance a full discussion is dependent on the situation and it's probably best left toward the end of the transaction or maybe into some disclosures but the answer to your question, no there is no restrictions about how we run the company going forward.

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**Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst***

Great. Just last one just sort of a structural question for Sue. Is it fair to say there will be 3 segments reported in the climate company?

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**Susan K. Carter *Ingersoll-Rand Plc - Senior VP & CFO***

TBD, we'll do some work on how we want to structure all of that going forward, Dean. So don't have a definitive answer on that but we'll come back to you as soon as we do have one of those. And I'll also add to your previous question, the tax-free nature of this spin is really a condition of the actual transaction closing, not anything that would impact the Climate business. Now if the tax-free nature didn't happen, it would impact the transaction not ClimateCo. Just so you're clear.

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**Michael W. Lamach *Ingersoll-Rand Plc - Chairman & CEO***

To piggyback on the segment question, I mean the way that we think about this is an opportunity to create an organization that is how we want to manage the organization, how we want to weave the organization as efficient and agile away as we possibly can and something segment related will pop out of that but you have got to go to the hard work of looking at all the signs going forward. Frankly, that's the exciting part of what we're doing. We really can take a clean sheet of paper and think pretty boldly about that and then how the segmentation is built out of that is the way we run the business.

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**Operator**

I will now turn the call back over to Zac Nagle for closing comments.

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**Zachary A. Nagle *Ingersoll-Rand Plc - VP of IR***

I'd like to thank everyone for joining today and as always, Shane and I will be available in the coming days to take any questions you may have. So have a great day.

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**Operator**

This concludes today's conference call. You may now disconnect.