Q4 2020 Trane Technologies PLC Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Trane Technologies Q4 2020 Earnings Conference Call. My name is Mariama, and I will be your operator for the call. The call will begin in a few moments with the speaker remarks and the Q&A session. (Operator Instructions) I will now turn the call Vice President of Investor Relations.

Zachary A. Nagle, Trane Technologies plc - VP of IR

Thanks, operator. Good morning, and thank you for joining us for Trane Technologies Fourth Quarter Call. This call is being webcast on our website at tranetechnologies.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 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; Dave Regnery, President and COO; and Chris Kuehn, Senior Vice President and CFO.

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

Michael W. Lamach, Trane Technologies plc - Chairman & CEO

Thanks, Zac, and everyone, for joining us on today's call. I think we can all agree that 2020 was an extraordinary year around the world, we saw the impact of the global pandemic intensified and endangered people, communities, climate change manifest.

Please turn to Slide 3. Even as we responded to these major global challenges, we stayed true to our long-term strategy. Our team launched Trane Technologies as a focused global climate innovator, to boldly challenge what's possible for a sustainable world, solving the most pressing and complex challenges facing our customers. We put our purpose into action from day 1, taking immediate steps to take care of each other, and it continues serving the essential needs of our customers and the world. I want to thank our global team members for the resilience, tenacity and commitment to rise to the many challenges we faced.

At present, COVID-19 continues its dangerous spread. The vaccine development, production and distribution is underway, and our Thermo King business is there to provide full end-to-end cold chain solutions. Our intent is to enable efficient equitable delivery and administration of the vaccine to as many people as possible to contain and eventually eliminate the spread of the virus.

We are also acutely focused on indoor environmental quality to improve the health and safety of indoor spaces, and we believe this is another long-term secular mega trend impacting our industry, laid bare and amplified by the pandemic. This is especially critical in education where many children rely on schools for access to technology and food. Virtual learning is broadening the digital divide and having a disproportionate impact on indigenous students and students of color. It's vital that we open our schools and address inequity in our educational systems.

We are applying our expertise and solutions to improve indoor air quality in commercial and residential spaces and balancing that with strategies to improve energy efficiency and reduce emissions. All of this is part of our drive to create a new, better normal.

At Trane Technologies, we are challenging the status quo to create a sustainable future where communities thrive, where quality is foundational and where the environment is protected for

future generations. We're putting a stake in the ground with historic and aggressive commitments like our Gigaton Challenge, which we launched in 2019, to reduce our customers' carbon emissions by 1 gigaton by the year 2030, and our commitment to reach gender parity and leadership. We are also a founding member of 110, a coalition to hire 1 million Black Americans over the next 10 years.

We are executing against our transformation plans in Blueprint for the future that we discussed at our Investor Day in December, to fund ongoing innovation investments in our business, aligned to global sustainability trends. We have a responsibility and opportunity for Trane Technologies to be a positive force that changes their industry and ultimately changes the world.

Fundamentally, putting all these elements together, we have a business model that delivers sustainable top quartile financial performance and powerful free cash flow. Combined with our balanced capital allocation strategy, we expect to continue to deliver differentiated returns for shareholders over time.

Moving to Slide 4. We delivered resilient financial performance throughout 2020, demonstrating the strength of our sustainability strategy and the power of our business operating system. In the fourth quarter, we delivered broad-based market outgrowth globally. We also delivered strong productivity improvement, with 140 basis points of EBITDA margin expansion and 12% adjusted EPS growth in the quarter.

We ended a tumultuous fiscal 2020 with positive organic bookings growth despite significant declines in the majority of or end markets globally while significantly investing in our business and people, deleverage was just 13% for 2020, which was significantly favorable to our gross margin leverage target and adjusted EBITDA. We also delivered exceptional free cash flow of $1.7 billion for the full year, adding to our capital allocation capacity and optionality and extending our track record of delivering free cash flow conversion in excess of 100%. In fact, through 2020, our 5-year average free cash is 116%.

And, I know many investors realize how focused we are on cash flow ROIC, so I'm pleased to report that 2020 was an outstanding year for us with an adjusted cash flow ROIC for the year of 34.5% and an adjusted 3 year average of 26.5%. Since the onset of the pandemic, we have been playing aggressive offense to emerge stronger on the other side. We've invested heavily in our people, and our business operating system and in innovation for our customers to further advance our leading competitive positions and to outgrow or end markets. In early 2020, we closed on the RMT transaction that would formally launch Trane Technologies.

We committed to deliver $100 million in annualized cost savings by 2021. But we didn’t stop there, we continued to work on business transformation initiatives in order to fundamentally lower our cost structure and to triple our initial commitment from $100 million to $300 million in annualized savings by 2023. These savings bolster our ability to continue delivering leading

innovation that both solves complex problems and earns a premium value with our customers. It fuels continued market outgrowth, while also delivering strong leverage.

The pandemic will continue to present significant challenges in 2021, including limiting our visibility on how end markets will perform beyond a relatively shorter window of time. However, our guidance reflects optimism for improving end market conditions based on continued progress on vaccine development and approvals, sufficient production and supply, efficient distribution and ultimately, mass vaccinations globally.

At this early stage, we're targeting strong organic revenue growth of between 5% and 7% and strong organic leverage of approximately 30%. We'll also see the benefit of 3 key channel acquisitions we made in quarter 4 and in January, which are proven high-return on investments for us. We have a proven track record of acquiring strong channel and technology partners over many years and delivering excellent returns. Just to give you a sense of the kinds of returns we are targeting, recent acquisitions have yielded cash flow ROIC in excess of 40%. We discussed 2 of these at our recent Investor Day, including acquisitions, which are expected to add about 1.5pts of growth, we're guiding to revenue growth of between 6.5% and 8.5% and adjusted EPS of $5.30 to $5.50 a share.

Our strong balance sheet and liquidity profile provide excellent capital allocation capacity and optionality as we look to deploy 100% of excess cash over time.

Lastly, our core strategy remains unchanged. Secular megatrends of energy efficiency and sustainability are becoming more pressing every day and we excel at addressing these megatrends and challenging what's possible for a sustainable world. This passion follows us forward to deliver top-tier financial performance and differentiated returns for our shareholders.

Please go to Slide 5. Strong execution and resilient performance throughout 2020 enabled us to consistently improve our outlook as the year progressed. Each quarter, we raised our outlook and advanced our competitive positioning as the leading climate-focused innovator to deliver strong 2020 financial results in a challenging environment.

We're extremely pleased with what our global team delivered. In the final analysis, we delivered a modest revenue decline significantly better than gross margin deleverage and exceptional cash flow during a global crisis, there's a lot to be proud of.

Now I'd like to turn the call over to Dave to discuss our bookings and revenue performance in the quarter. Dave?

David S. Regnery, Trane Technologies plc - President & COO

Thanks, Mike. Please turn to Slide #6. We continued to face pandemic related headwinds in the fourth quarter. Despite these headwinds, our global teams remain focused and responsive to our customers, delivering 3% bookings growth and flattish revenue in the quarter.

Our Americas segment delivered growth in both bookings and revenue, up 2% and 1%, respectively. Our Americas commercial HVAC business has remained resilient through 2020 with Q4 bookings down mid-single digits against approximately 25% growth on a 2-year stack versus 2017 related to large, lumpy contracting bookings in 2018 and to a lesser extent, 2019. Revenues were also down mid-single digits against high teens comps in Q4 2019 in North America.

Services continue to outperform equipment and remain challenged by low building occupancy rates and building closures related to ongoing health and safety concerns. However, our teams remain adept, adjusting to the changing landscapes and seizing opportunities to outgrow market conditions in areas such as contracting and digital connectedness and indoor air quality assessments and services.

The residential HVAC markets remained robust and our Residential HVAC team delivered revenue growth of more than 20% in the quarter. Backlog also remains strong entering 2021.

Our Americas transport refrigeration business outperformed North America Truck and Trailer markets which were down in the quarter. The team delivered solid revenue growth - up low single digits - and strong bookings growth, up over 40%, as the Transport markets gradually come out of a prolonged down cycle, accelerated by the Covid-19 pandemic.

Turning to EMEA, the overall markets continue to be challenged by significant pandemic flare ups and lockdowns that vary by region and country, but our teams continue to execute well. EMEA delivered 9% bookings growth in the quarter, with growth in both commercial HVAC and Transport refrigeration. Revenues lagged orders, down 6% overall, but outgrew underlying market conditions.

Commercial HVAC bookings were up high-teens while revenues were down MSD.
EMEA transport bookings were positive in the quarter and revenues were down HSD, outperforming the broader transport markets which were down mid-teens.

Asia Pacific results continue to be mixed, with overall bookings up 2% and revenues down 6%. China continues to show signs of improvement. However, growth in China was more than offset by declines in the rest of Asia, where a number of economies are still challenged by the pandemic.

Now I'd like to turn the call over to Chris to discuss our operating performance and margins. Chris?

Thanks, Dave. Please turn to slide #7. Dave provided a good overview of our revenues on the prior slide, so I'll focus my comments on margins. Adjusted EBITDA margins were strong despite a slight revenue decline, up 140 basis points, driving adjusted EPS growth of 12%. Productivity and cost containment were strong, reflecting solid execution across the board. Our teams also delivered positive price/cost in every region during the quarter. In addition, we maintained high levels of business reinvestment and employee safety measures, innovation and technology.

Please turn to Slide #8. In the Americas region, market outgrowth, cost containment, productivity and price drove solid EBITDA margin expansion of 130 basis points. Likewise, the EMEA and Asia Pacific regions delivered strong productivity and cost containment to improve the EBITDA margins by 110 basis points and 200 basis points, respectively, versus 2019.

The strong productivity is being fueled by our robust pipeline of projects, combined with structural transformation initiatives that Mike referred to earlier and which we shared at our December investor event.

Now please turn to Slide #9. Commercial HVAC Americas has significantly outperformed the broader markets throughout 2020 through strong focus, agility and execution. Our service revenue remained resilient, growing low single digits in the fourth quarter despite continued low building occupancy. Interest remains high for comprehensive indoor air quality assessments. And we anticipate indoor air quality providing a tailwind, not only in 2021, but over the longer term.

End market indicators remained soft. And despite limited visibility due to the pandemic, we expect demand improvement in the second half of 2021 with improved vaccine distribution and administration.

Turning to residential. We saw record bookings and revenue in the fourth quarter, which puts us in a strong backlog position entering 2021. Overall, we expect more normalized growth for 2021, with tough comps in the back half of the year given record bookings and revenue in the second half of 2020.

Turning to Americas transport. We're expecting strong growth in 2021, with markets emerging from deep down cycles that began in the fourth quarter of 2019. Orders were very strong in the quarter with some customers placing orders for the year. We see market demand ramping through the year with market growth in the mid- to high single-digit range in the first quarter. I'll talk more about transport refrigeration in our topics of interest.

Turning to EMEA. The recovery continues to be country dependent with some countries in additional rounds of lockdowns. It's early to call the recovery broadly in Europe, but we expect improvements heading into 2021 with improved vaccine distribution in the region. Transport markets, in particular, are expected to emerge from the 2020 down cycle, with approximately 8% market growth projection given the current rate of economic improvement.

Turning to Asia. We expect continued growth in China in 2021. However, the rest of Asia has been slow to curb the virus and is still largely climbing the path to recovery. On balance, we see a mixed picture for Asia in 2021.

Now I'd like to turn the call back over to Chris to outline our guidance for 2021. Chris?

Christopher J. Kuehn, Trane Technologies plc - Senior VP & CFO

Thanks, Dave. Please turn to Slide #10. Based on the market backdrop Dave just outlined, and the expectation for an improving pace of global vaccine production and administration, we expect to deliver strong financial performance in 2021.

As Mike indicated earlier, we expect to deliver strong organic financial performance, with organic revenue growth between 5% and 7%; organic leverage of approximately 30%; and adjusted EPS of between $5.25 and $5.45.

We also expect to see about 1.5 points of revenue growth from the 3 channel acquisitions, which Mike discussed at the outset, which will carry about 5 points of operating margin and deliver EPS accretion of about $0.05. All in, total revenue growth is expected to be between 6.5% and 8.5%, and EPS is expected to be between $5.30 and $5.50, which translates to a 19% to 23% earnings growth.

We expect free cash flow to remain strong and equal to or greater than 100% of adjusted net income. If we project current FX rates out to the end of the year, FX would likely be a tailwind, albeit too early to call given the global uncertainty and volatility. Our FX exposure is largely translational in nature, and each point of revenue would translate at approximately translational OI rates. Net, each point from FX would translate into about $0.05 of EPS.

Please go to Slide #11. We don’t provide quarterly guidance but given the level of uncertainty and wide range of estimates across the investment community, we believe it may be constructive to provide a high level outlook for the quarter given what we see today. Based on orders, backlog, our pipeline and visibility, we currently expect organic revenues to be up approximately 5% in Q1 with strong leverage of between 30% and 35%.

Acquisitions are expected to add about a point and a half of growth and if FX holds at current rates, FX would add about another point of growth. All in, total revenues are expected to be up about 7.5%. As discussed earlier, M&A carries about 5 points of operating margin in the first year after integration related costs and each point of FX translates at approximately operating margin rates. Combined, these will add about 2 cents of EPS in the first quarter.

There are a couple of items for Q1 that I also want to highlight to help with your models. We're currently expecting corporate costs to be approximately $70 million in Q1. Q1 is primarily impacted by stock-based compensation, which is heaviest in the first quarter based on annual

vesting and the timing of 2021 corporate expenses, which are more heavily weighted in Q1 than in other quarters.

Our transformation activities continue to drive corporate costs lower, estimated at $220 million in 2021. So Q1 has no adverse impact to the full year. However, you may want to incorporate this outlook for modeling purposes. The other item I want to highlight is the estimated Q1 adjusted effective tax rate of approximately 15%. The Q1 tax rate is traditionally low, impacted again by stock-based compensation given annual vesting in Q1. The rate in Q1 2020 was roughly 12% as a reference point. The full year 2021 guidance remains 19% to 20%. So there's no impact to the full year from a seasonally low Q1, but you may want to use this as a guide for modeling purposes.

Please go to Slide #12. As we outlined during our investor event in December, by transforming train technologies, we initially identified $100 million of fixed cost reductions by 2021. We've exceeded our initial cost reduction expectations, delivering $100 million of savings in 2020, a full year early, and we expect to deliver $140 million in savings in 2021. We are now targeting and are on track to deliver $300 million of run rate savings by 2023.

Please go to Slide #13. Our balanced capital allocation strategy is focused based on consistently deploying excess cash to the opportunities with the returns for shareholders.

Despite challenging economic conditions in 2020, we continued to strengthen our core business with high levels of business reinvestment in high ROI technology, innovation and operational excellence projects, which are vital to our continued growth, product leadership and margin expansion. We remain committed to maintaining a strong balance sheet that provides us with continued optionality as our markets evolve. 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 pursue strategic M&A, that further improves long term shareholder returns, and we continue to see value in share repurchases if the stock trades below our calculated intrinsic value. All in, we expect to consistently deploy 100% of excess cash over time.

Please turn to Slide 14, and I'll discuss how we deployed excess cash in 2020 and our plans for 2021. Through the third quarter of 2020, we paused on certain elements of our balance in favor of capital preservation and optionality given the COVID-19 pandemic. However, we did not pause on paying a strong dividend, maintaining our dividend rate and paying over $500 million to shareholders during the year. We also did not pause on paying down $300 million of debt, which matured during the year, consistent with expectations upon completion of the RMT.

Entering the fourth quarter, we resumed all elements of our balanced capital allocation strategy based on our strong free cash flow generation and improved visibility to our end markets from earlier in the year. On the M&A front, we invested $183 million in value-accretive channel acquisitions that Mike has previously discussed.

We also deployed $250 million in share repurchases during the quarter and have repurchased an additional $100 million to date in the first quarter of 2021 for a total of $350 million.

Looking to 2021, after fully reinvesting in the business, we plan to continue executing our full balanced capital allocation strategy. This week, we announced that we've increased our quarterly dividend by 11% to $2.36 per share annualized, starting with the payment this March. We also announced a new $2 billion share repurchase program which adds significant capacity to the existing authorization, which has approximately $400 million remaining. These announcements reflect our strong balance sheet and liquidity position, our commitment to deploying 100% of excess cash over time and our continued confidence in our ability to deliver powerful free cash flow to execute our balanced capital allocation strategy.

We anticipate deploying $1 billion between value-accretive M&A and share repurchases. Additionally, we plan to retire $425 million in debt as it reaches maturity in 2021. As I stated earlier, all elements of our balanced capital allocation strategy are in play, and we are focused on consistently deploying excess cash to the opportunities with the highest returns for shareholders.

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

David S. Regnery, Trane Technologies plc - President & COO

Thanks, Chris. Please go to Slide #16. As we discussed throughout the presentation, we recently completed 3 channel acquisitions, which has been a proven track to profitable growth for us over the past decade. We've discussed why we're so excited about these acquisitions earlier in the presentation, so I won't spend any more time now. However, we have the slide in the deck for your reference.

We'll break out organic versus total revenue each quarter. But for modeling purposes, we'd highlight that 80% of the M&A is in the Americas commercial HVAC, and the other 20% is in EMEA HVAC.

Please go to Slide #17. We've covered the meeting details of this slide earlier in the presentation, so I won't spend a lot of additional time on it now. The objective of the slide is to lay out how to think about organic growth and leverage any impact of the acquisitions. It also provides some helpful modeling guidance elements at the bottom. The key takeaways are that we're expecting strong organic growth leverage and EPS, and that M&A adds additional revenues and modest EPS accretion in 2021.

Please go to Slide #18. When we ask for questions ahead of today's call, we got great feedback. Zac, thanks you for that feedback. I like to give Zac a hard time, but for those of you who know Zac, you probably know that he's a bit bigger and stronger than I am. So I need to be a bit careful with that. All kidding aside, transport refrigeration and how to think about the

markets versus our global transport refrigeration business was a question on nearly everyone's list. As a result, we continue to provide as much detailed transparency as we can, while at the same time, keeping competitive sensitive information safe and the story simple enough to explain to your colleagues.

On the left side of the chart, you can see the markets for the big 3 markets in transport refrigeration, trailer, truck and APU. The numbers and in the boxes are based on published ACT and IHS data for North America and EMEA and are, therefore, recognizable to many of you.

After the down cycle in 2020, that was accelerated by the pandemic, the forecast points for an emergence from the down cycle into a strong rebound in 2021, with the big 3 up approximately 34% in North America and up 9% in EMEA. We've highlighted this point before, but it's important to note our transport refrigeration businesses are highly diverse, which makes us more resilient through cycles. While 2/3 of our business is comprised of the big 3, that most of you follow closely, roughly 1/3 of our transport refrigeration business is comprised of marine, bus, rail, air and aftermarket parts and services.

What we refer to on the slide is all other for lack of a more catchy phrase. These businesses are also forecasted to show growth in 2021, up between 5% and 10% in both regions with varying dynamics for each business. In order to understand the total forecast for transport, we need to look at the weighted average growth based on our mix of business and the respective growth rates of each market. The middle box on the right does the math for you, so you don't need to calculate it. Again, trying to make this as simple as possible despite some complexity given the wide range of products and markets. Net, the weighted average growth rate for transport Americas is approximately 26%, and it's 8% for EMEA. We have a strong position in each of these market segments and are excited to be entering what is setting up to be a strong growth year for Thermo King.

Lastly, we continue to see opportunities for us to help solve COVID-19 crisis through vaccine storage and distribution. As you've seen from all the news reports, the logistical challenges are tremendous. Countries and states are taking different paths relative to supply and administration. We're seeing good activity across our comprehensive vaccine storage and distribution portfolio with more to come.

Now I'd like to I'll turn the call back to Mike for closing remarks. Mike?

Michael W. Lamach, Trane Technologies plc - Chairman & CEO

Thanks, Dave. Please go to Slide 19. We continue to see strong demand for what we do and a growing movement around what we stand for. Energy efficiency and sustainability megatrends are only growing stronger, and we are uniquely positioned to deliver innovation that intersects with these trends and accelerates the world's progress.

Even as we responded to market challenges and uncertainty caused by the global pandemic, we leveraged our strong financial position and continue to invest in our businesses, launching more than 50 new solutions in 2020 to meet the needs of our customers. And we're not only focused on investments in innovation and growth, but also on investments and business transformation. We are on track to deliver savings that improve the cost structure and further strengthen our ability to inability megatrends underpinning our end markets.

When combined with the long-term sustainability megatrends underpinning our end markets, our exceptional ability to generate free cash flow, and balanced capital deployment of 100% of excess cash over time, we are well positioned to continue to drive differentiated shareholder returns.

I've said that Trane Technologies has the essence of a startup with the credibility of a market leader. That unique profile fosters a culture of inclusion, ingenuity and performance. It's this type of passion and purpose that sets Trane Technologies apart and it's how we will change the industry and ultimately change the world. And now, Chris, Dave and I would be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions) Your first question comes from Joe Ritchie with Goldman Sachs.

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

Question – Joseph Alfred Ritchie: Mike or Dave, maybe to start on just the commercial HVAC trends and just the bifurcation that you're seeing in Americas versus EMEA at least in the quarter. I mean I know some of it was comps driven, but that seems to be a question that we're getting from a few investors this morning?

Answer – David S. Regnery: So, your question is around the fourth quarter?

Question – Joseph Alfred Ritchie: Yes, more around the fourth quarter and the bookings trends and then what you're seeing, I guess, to start the year on commercial HVAC specifically?

Answer – David S. Regnery: Sure. No problem. Our commercial -- let me start in EMEA, okay? And our commercial business in EMEA has been strong all year, and a lot of that is fueled, not necessarily by the market, but more it has to do with the innovation that we've been able to introduce into the market. So we're seeing a lot of uptick in our heat pump technologies as well as we're entering into the industrial cooling space. So I would say, EMEA is more led by the innovation side, and you saw the strong bookings we had in the fourth quarter.

In the Americas, we had some really tough comps there. You have to remember the 2-year stack, we're up over 25%. So we actually did exactly what we thought we would do in the Americas. It was down. But again, comparing the stack that we were up against, we're okay with our performance there. Our business in the Americas, we're seeing strength in certain verticals, certainly, data centers, warehousing, and we see those trends continuing into 2021.

Question – Joseph Alfred Ritchie: Okay. Great. And maybe my one follow-on question. Just sticking with the guidance, you guys provided a ton of detail. So thank you for that. If I think about just the -- what you're expecting from a market standpoint on the transport side in Americas? And then also with strong resi backlog heading into 2021 in the Americas business, it looks like just simplistically, with those 2 businesses, you can get to kind of like a mid- single-digit number for America's growth. I guess how are you thinking about then the growth on the Americas business for 2021, and then specifically, out of commercial HVAC, if you could provide any color there?

Answer – David S. Regnery: Sure. This is Dave again. I'll start and Mike can add. We'll start in the transport Americas, which we're pretty clear in the -- I just spoke about in the appendix there, but are the topics of interest, rather. So we think the Americas will ramp through the year in our transport business. Overall, we're estimating that the growth rate there to be a little north of 25% and that's good to see. Our fourth quarter bookings in transport really support our assumptions going into the 2021 year.

On residential, very strong fourth quarter revenue growth over 20%, nice bookings that we saw there. We anticipate that 2021 will be more of a normalized year in totality. So we're thinking the low single digits maybe gets up to mid-single digits. However, it's going to be choppy, right? We're going to have some very tough comps in the back half of the year just because of the strength that we saw in 2020.

In the Americas, this is going to be a first half, second half. We're anticipating the second half to be stronger than the first half. And a lot of that's going to be led by vaccine distribution and the administration of those vaccines into people's arms.

Answer – Michael W. Lamach: Joe, I'd say, we're optimistic that we're going to get this right from a distribution perspective on vaccines. I can tell you, from our company's perspective, we're working with a very large health care provider in the Southeast and bringing not only the cold storage capability, but logistics and lean capability to think about giving shots in tack time like we would run an operation in the plant. We have industrial friends and colleagues working with other health care providers to do the same. And it's that sort of thing that gives me some optimism that we're going to get this thing right. We're concerned about, obviously, the efficacy of a vaccine against variants, and that could be an issue. But again, we're optimistic that these vaccines will be -- have efficacy because of the RNA technology, basically being able to quickly adapt to that. We also think there's some potential wild cards that could be helpful. One would be to the extent in the U.S., you've got support to schools around helping with ventilation as an example. And to the extent that you could see that funding

dispersed. And it will be a formulaic disbursement, much like federal funding happens with schools. You would see potentially if that can get done quick enough, maybe between May and September, an opportunity to really impact schools as well. But if not, I mean, eventually, that's going to flow, I believe, the health and ventilation. And obviously, we're a big player in ventilation in schools. So we're not really counting on that per se, but there's an opportunity for us if that were to happen. I think over a multiyear period, we'd see some benefit from that as well.

Answer – Operator: So our next question comes from Julian Mitchell with Barclays.

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

Question – Julian C.H. Mitchell: Maybe one question on the operating leverage. So Mike, you'd mentioned that you're assuming about a 30% organic leverage better than that mid-20s placeholder because of mix and the savings. Just wondered what's dialed in for that leverage number regarding price material spread? Do we get maybe a lag on the offset of those input costs for a quarter or 2 and your comfort around offsetting those higher costs?

Answer – Michael W. Lamach: Yes. Starting point, Julian, just for color before I turn it really to Chris on that would be the organic leverage is actually quite high, but when you add to the point -- you had the 1.5 points of acquisitions, which carry no or very little leverage, then you have FX, which translates really only at operating leverage, you kind of come down to that 30 range.

As it relates to price cost, we go about this in our normal operating cadence. We understand the input costs. We understand what our operating system tells us to do. We've been successful for a long period of time about implementing that. And so we're going to target the typical 20%, 30% -- basis points that we would see in that relative to both innovation and just price absorbing any sort of shocks that we have in commodity costs. Chris, you want to you color in both leveraging commodities?

Answer – Christopher J. Kuehn: Yes, Julian, it's Chris. I would tell you that, again, our current inflation right now, what we see is included in that 30% full year organic leverage guidance. But to Mike's point, we enter every year thinking in our playbook, a 20 to 30 basis point improvement price over cost. And some of that's really executed through our typical strategies around locking strategies. So for copper, we're entering into any period, generally 70% locked and we're over 50% locked from a full year perspective. The timing of our steel purchasing, those lead times are about 6 months. So that gives us some visibility to think about how we price in the marketplace at that point. So those are just part of our standard playbook. And at the same time, we'll look at pricing throughout the year as necessary to make sure that we're still executing to the 20 or 30 basis points. But so to Mike's point, we have been here before. We understand the variables. And right now, we're just executing on normal playbook.

Question – Julian C.H. Mitchell: And maybe just one follow-up, perhaps for you, mostly, Chris. Free cash flow was very, very good, $1.7 billion, I think, in '20, but that was with a steep drop in CapEx and some big working cap tailwinds. So just trying to understand how difficult or easy it will be this year to match that $1.7 billion sort of absolute number? What kind of headwind we should expect this year from CapEx rebounding and maybe working capital reversing?

Answer – Christopher J. Kuehn: Julian, good question. So look, as you said, we're very happy with our performance in 2020 and the conversion, 158% conversion. For 2021, we are guiding to 100% free cash flow conversion. So I don't think that's at the $1.7 billion level. That's at a much lower level from a conversion perspective based on guide we gave of $5.40 at the midpoint. But I would tell you, year-over-year, we're going to have some strong earnings. That's expected. We absolutely intend to continue to reinvest in the business. That's part of our model for 100% free cash flow conversion. I do expect some strategic or, let's say, modest working capital expansion. As you noted, we're down a little bit over 1% working capital at the end of 2020. I don't see us necessarily going back to the level we had in 2019. I think we've learned a lot about what we need in the business. And while I expect some of that to come back a bit, it really will come back to really support our expected growth in the year.

CapEx was still in our 1% to 2% range for final amounts in 2020, and I expect that to still be 1% to 2% for 2021. So otherwise, I think we've got all the right metrics in place to go execute at 100%, managing our working capital as earnings grow and expected growth and then funding the business as we need to.

Answer – Operator: Your next question comes from Scott Davis with Melius Research.

Analyst: **Scott Reed Davis**, Melius Research LLC - Founding partner, Chairman, CEO & Research Analyst of Multi- Industry Research

Question – Scott Reed Davis: This may be tough. But is it possible though, to quantify the vaccine distribution opportunity? I mean it seems like we're going to be giving out vaccines for years to come, I would imagine. So this is a new business for you guys in many ways or at least new at the scale. Is there a way to think about sizing it at all?

Answer – Michael W. Lamach: Yes, I think RNA technology and the need for cold storage at volumes is something that every health care system ultimately, every state is going to provide for some capacity. This could look like much like a flu shot or a booster shot every year in my mind and as MRNA technology becomes more prevalent for other situations, again, you're needing cold storage for that to place as well. So I think there's sufficient capacity and certainly, there will be growth in the more traditional modes of refrigeration, thinking about trailer and truck and air and so on and so forth. But I do think some of the cold storage, the mobile, large-scale cold storage devices are going to be a longer-term opportunity.

In the short run, I would say that when you tend to have a centralized government response with a national health care system, it seems to be going quicker, and we seem to have more need, more demand for the large-scale storage capacity solutions that we have. As you see these larger mass vaccination sites, and it becomes more obvious that there's some wasted vaccine. And you see the apps and the lines of people queuing for any vaccine it's going to get wasted at the end of a day, I believe you're going to see more demand for larger scale, kind of mobile storage and the pop-ups going along. So long story short, there is an element of this, which will be a in '21, but there's probably a structural element to readiness as it relates to countries, cities, states for more cold storage and more of a ongoing remediation or ongoing capacity to handle this type of vaccine.

Question – Scott Reed Davis: And just to go in a little bit further. I mean, is it to the point where you could say with some level of confidence that this is a 1% tailwind to your growth rate at 2%? Is it smaller than that? It's just -- it's so far below 1% that we shouldn't think about it at all as much material move in the model?

Answer – Michael W. Lamach: Yes, Scott, I wouldn't size it. I wouldn't take the risk of the sizing it because we're learning a lot about it. I will say it's -- we're really, I would say, we are really disrupting the game because there's never been cold storage at these temperatures with these capacities. And if you think about sort of the old way of looking at a cold pharma and logistics center, these would have been larger sort of residential freezers or what would have gone into a even a major hospital in the city might have been a larger looking residential freezer, the size of that as opposed to something that could be 10 x 10, 10 x 20 or even larger, something that could be portable. It can run in short power, it can run on diesel, it can be moved and managed telematically. So -- and if you think about the cost to store a dose, it's a fraction, literally a tiny fraction of the cost in the industry. So this is disruptive. Dave's comments, moving to Industrial, refrigeration is disruptive and that we can provide a better industrial process cooling solution than using ammonia, safer, more energy efficient. So these are some of the more disruptive things that we're thinking about. And it's hard to put a number on in the big markets.

Question – Scott Reed Davis: Yes. Well, sounds interesting.

Answer – David S. Regnery: Scott, just a little extra color on the vaccine distribution. I was working with, as Mike said earlier, we're working with the local health care provider here in the Carolinas on helping them with logistics. But we started to talk through their storage need. And the first response was, well, right now, we don't have enough vaccines, so we don't have storage need. And then as our team started to ask the follow-on questions with these mRNA vaccines and are they going to go away or more to come? They realize that a deep freeze container like we can provide gives them ultimate flexibility. And at the end of the day, they made purchases based on the fact that they wanted to make sure that they we're not the -- any kind of a health care provider that had to destroy any vaccines because they were not kept at the right temperature.

Answer – Operator: Your next question comes from Steve Tusa with JPMorgan.

Answer – Charles Stephen Tusa: Just a follow-up on -- first of all, congrats on the great execution as usual. Just following up on Scott's question. What's the actual benefit you guys think you saw in '20 from all this vaccine stuff? Or what kind of run rate are you at right now on that? I mean, you just talked about booking an order that you could kind of identify based on this trend? Maybe just give us a little more financial color around this and just so what the base is?

Answer – Michael W. Lamach: Yes. It's -- we have certainly both in turned a lot in the indoor air quality space. But systems don't capture nuances and change orders and tweaks that may be related to that. So it's hardly worth the effort. And that's why I think it's really a structural long-term change in the way that standards are applied to buildings and ultimately codes and then how that moves across the world. And this is why I'm convinced it's going to be a permanent IAQ change.

With regard to cold storage and vaccines, because of the capacity that we can store these things and the finite number of top of hospitals and sites, it's not a large single opportunity. It's really something that structurally, I think, will changed my earlier comment about readiness, whether that is FEMA and other country response organizations that are prepared or major medical centers and regions of the countries that will have capacity that will be different than they had in the past for mass storage. So it's not going to be a huge thing, but it's just another critical link in the cold chain. It's another opportunity to apply something that is more disruptive in terms of what was thought to be medical storage, cold storage in the past.

And then getting to these temperatures of minus 94 as an example, it's no small feat. So we're looking for other ways and applications to be able to use that process for getting to that to look at other applications for cold storage.

Answer – Charles Stephen Tusa: So is it like in the tens of millions of revenues right now or $100 million in revenues? Like just roughly like where are you kind of just within kind of to scope it within the universe? Like what $10 million, $100 million in that range?

Answer – Michael W. Lamach: Steve, I always appreciate your participants in asking them the question 3x, 4x, and we know until they for a long time, but I'm not going to go there.

Answer – Charles Stephen Tusa: And then I guess just 2 simple questions detailed. What for your total commercial HVAC equipment business, roughly what is your expectation for this year? Is it up kind of mid-singles for commercial -- global commercial equipment revenue? And then what was the difference between sell-through with your captive distribution and independent distribution and residential?

Answer – Michael W. Lamach: Okay. So 2 questions, Steve, right? One is what's our commercial HVAC equipment look globally and then specific, again, separate question to res, the sell and sell-through kind of thing?

Answer – Charles Stephen Tusa: Yes, yes. Correct. For 4Q for resi and then for 2021 for commercial equipment?

Answer – David S. Regnery: Yes. I'll start. Steve, this is Dave. I'll start with the resi question first. It was a strong quarter for us for residential, up 20%. And remember, we're 50-50, okay? So 50% independent wholesalers, 50% company owned. If you look just at the IDWs, they had some strong sell-through in the fourth quarter. It was in the mid-teens. So obviously, our sell-in was more than that if they adjust their inventory levels. But their sell-through was in the mid-teens, which was encouraging for us.

On the global basis for the applied, I guess, on a global basis, you probably have it right. It's probably up in the low single-digit range.

Answer – Operator: Your next question comes from John Walsh with Crédit Suisse.

Answer – John Fred Walsh: So just thinking about kind of the embedded greenhouse gas reduction opportunity that sits in the installed base of commercial buildings. We've recently seen a government report that laid out a scenario where only about 20% of buildings and 30% of square footage that was built before 2008 had actually upgraded their HVAC equipment. Does that sound right to you? Do you think that the actual installed base, there's been that little of upgrade historically? And I'm just thinking about how that conversion might change if we start getting some stimulus or energy policy. I don't know if there's a way to look at what you've seen in Europe and apply it to the U.S., but would love to get your thoughts on those numbers?

Answer – Michael W. Lamach: Yes. John, what I'd say is I'm going to go back and hit the call and record what you just said because you've actually explained the launch of Trane Technologies is probably better than I have over the last year exactly what we think is an enormous opportunity. And the data, the size that we're looking at, you're talking about 400 billion square feet of just commercial space common communal space. It's pretty tough for anybody to have a high degree of accuracy on that. But the reality is and what we know and experience and what our teams tell us around the world, there's tremendous opportunity to upfit upgrade. And this will happen. I mean you can look at what's happening in the EU, as an example. It's just amazing, looking at the electrification of heat as an example and look at the map in Europe and the refrigerant deadlines that you're seeing not only standards change, but codes and law changing around this. Again, to Dave's point about being happy with heat pump growth, we're 5 generations in now with electrification of heat in Europe. We're 5 generations, 5 years into that process. And if you go back over a long period of time in Europe, you've seen really strong growth rates for us in that area. We just really strong growth rates period in a flattish economy. So it really makes the case for why we split the company, why we think that this is a multiple GDP business. At the end of the day, investors buy a portfolio or an idea hopefully, they buy a business model that they feel confident in the delivery and they buy a management team that can deliver on that. So you're making the case for why we think that Trane Technologies is our future.

Answer – John Fred Walsh: Got you. I should probably just pass it there, but let me try to sneak in another one.

Answer – Michael W. Lamach: You should drop the microphone and walk away now.

Answer – John Fred Walsh: Just thinking about that $1 billion placeholder for M&A and repo, you seem to be pushing us at least towards the repo for our models. But kind of what does that pipeline look like when it comes to, I would assume, more bolt-on type acquisitions that are out there get launched?

Answer – Michael W. Lamach: Yes, it's a great question, and I appreciate the opportunity to clarify that. We give you $1 billion because we know difficult it is for you to model M&A, right? It depends on when you do it and what it is and so on and so forth. So we're giving you something that you can count on, which is we're going to deploy $1 billion of cash toward these 2 things. We very much love the 20-plus deals we've done in the last 3, 4, 5 years that it's all been extraordinarily profitable in terms of ROIC. We want to do more of those. And so if we could find the right opportunities, we will. And as you know, often coming out of a recession, coming out of a downturn, there is opportunity. And we feel like we've got the capacity to be able to do that. So we're having you model that because you need to do something with the cash and some of the capital, and we're trying to give you a minimum expectation. But if we found outstanding M&A to go do, we're going to go do that because there's -- that's really the compounding effect. And, yes, this is one of the reasons we've seen cash flow what it is, which has been top quartile now for years in terms of the industrial sector. And we want to do more of it.

Answer – Operator: Our next question comes from Jeff Sprague with Vertical Research.

Answer – Jeffrey Todd Sprague: Just 2 quick, hopefully, easy ones for me. First, just on TK, and I appreciate all that great detail. I also just wanted to kind of get my arms around the operating leverage there. Obviously, historically, the highest margin piece of the portfolio. I'm just wondering if the deleverage in 2020 took margins below segment average? And does your guidance today kind of take TK back up above the segment average?

Answer – Christopher J. Kuehn: I'll start, Jeff. I think back in 2020, the TK business delevered with the lower volumes. But I think with our playbook, they stayed within their gross margins for the year. For 2021, we see that as part of our tailwind, and that's where we're modeling a 30% organic leverage on the full year, about 5 points higher than where our long-term target is, our long-term target being around 25%. But we're seeing 2021 being the year with some higher leverage organically at the 30% level, fueled by the TK growth as well as the transformation savings that we're continuing to improve on a year-over-year basis as well.

Answer – Jeffrey Todd Sprague: Great. And also just wondering, maybe picking up on Dave's answer on the commercial equipment outlook. How are backlogs relative to your forward sales

projections as we start the year, normal like above what you'd see? Any little color there would be helpful, I think?

Answer – David S. Regnery: Yes. I'd say our backlogs are strong coming into 2021. We're up in the mid-teens, which is nice to see. So -- and good activity there.

Answer – Michael W. Lamach: Yes, Jeff, recognized, when we think about backlogs, we're only looking at equipment. We're not looking at service contracts and the sorts of things. So what days saying it's really healthy, right? That's a good backlog kind of pushing into the year. And then obviously, we expect to renew and grow our arrangements and relationships with customers as well.

Answer – Operator: Your next question comes from Andy Kaplowitz with Citigroup.

Answer – Andrew Alec Kaplowitz: So your services business, obviously, has been relatively stable over the last couple of quarters, up low single digits in North America. Could you talk about what is embedded into 2021 forecast for North American and global commercial HVAC services? And then given the focus on IAQ, can you give a rough idea what is the percentage of assessments that have resulted in small changes to existing systems versus major upgrades at this point?

Answer – Michael W. Lamach: Services are going to continue to grow. And in some ways, we're building some more open and people deferred, expect there to be a very good service growth this year. I mean even in United Americas with commercial Americas and the Dodge data kind of pointing down around some of the stuff, we think there's a pathway between -- and you realize that's about 15% of really kind of how we would think about modeling our business anyway. But the reality is that the retrofits that we would do, the IAQ work, and the deferred service that would be happening should give us a pathway to see some growth, albeit maybe lower, but growth in commercial Americas next year. Almost every IAQ survey we do amounts to some business. Because what we realize as we do these things, and we've got teams out there, lets just go fix the stuff that we can fix right away while we're there. So it's invariable that not only being paid for the survey, you're being paid for the really quick stuff that you just got to go get done. And then obviously, the long tail in this becomes the proposals around asset renewal and the customers' capacity to pay for some of these things to get to an optimal model. And then there is day 2, getting the customer ready for the long-term and being part of that capital planning or maintenance planning model going forward. But it's a very, very high relationship between sort of human survey and doing work.

Answer – David S. Regnery: No, I totally agree with you, Mike. The day 2 activity that we're seeing is starting to pick up. And as Mike said, remember, our indoor air qualities are based on a system view. So as we're upgrading on the day 2 opportunities, it's really about embedding a lot of IAQ solutions into the system. And that activity is going nicely for us.

Answer – Andrew Alec Kaplowitz: And then maybe just can you give us a little more color on what's happening in Asia? You mentioned China strength is continuing. It's been offset by weakness in the rest of Asia. You did see what looks like an inflection in bookings in Asia this quarter despite the interruption. So are you seeing an overall uptick led by China? What's the outlook embedded in '21 forecast for Asia PAC?

Answer – David S. Regnery: Yes. We continued -- Asia -- I mean, China has recovered nicely from the pandemic, okay? We continue to see good results there. The rest of Asia, it's really spotty and it's really country specific, and they're really struggling with the pandemic.

For 2021, we think it's going to be a mixed year. We believe that China will continue to perform. And we're confident that they will. The rest of Asia, it's going to be -- let's get this vaccine distributed and let's show the economies -- hopefully, the economy start to come back in the second half of the year. We think they will, and that's what we built into our models.

Answer – Operator: Your next question comes from Josh Pokrzywinski with Morgan Stanley.

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

Question – Joshua Charles Pokrzywinski: So I'll just keep it at one question. I appreciate you kind of running over on the call here. Mike, there's a lot of discussion both in the U.S. and Europe with all this kind of green new deal type stuff and not a lot of ink spilled on what the specifics look like. Presumably, you guys are kind of going to bat with kind of various lobbying and standard driving procedures. What is it that you're actually kind of pushing for that you guys would view as like, hey, this is a really smart and efficient way to go about incentivizing folks or penalizing folks ever? And what would be kind of a less efficient model? Like what do those conversations look like? And what would be kind of a good outcome in your view?

Answer – Michael W. Lamach: Yes. I mean, the technology exists to eliminate greenhouse gas emissions from air conditioning and refrigeration systems. Now today, we've had it out for 5, 6 years at this point in time. And so when you think about bending the curve on 1/4 to 1/3 of the world's carbon emissions by 2030, it's a shame not to go do the easiest thing, which is a technology that's already been invented. We've done this. It's out in the marketplace. The added advantages, we -- beginning in about 2015 or '16, no longer had to ask customers to pay a premium for it because we actually designed the whole system efficiencies to be lower than the high green gas emission solutions that are out there for the space. So we want to see code standards, laws, rules changed that would limit this. And it's not that you don't need to take to tax it, you could, you could put a price on it. It doesn't really matter. We're giving customers and economic motivation to do this because the paybacks are better and taking all the greenhouse gas emissions out. And that's what we're trying to lead. That's what the whole Gigaton Challenge we launched was. This is in 2015 when we had science-based targets. We were the first -- maybe industrial, but for sure, the first HVAC company that have science-based targets approved. We finish those 2020 targets in 2018. And so launched the 2030 commitments. And we were actually hoping last night or today, they've actually received

approval from the committee that approves science-based commitments. Of course, it takes years to be able to do that. And it takes thousands of thousands with internal hours to put those plans together and vet them and make sure that the base in science and approved. But fundamentally, it's changing laws, code standards to avoid green house based gas emissions from HVAC refrigeration period.

Question – Joshua Charles Pokrzywinski: So you see it more as code based than incentive based?

Answer – Michael W. Lamach: No, I see it more as economic based. The reason we're winning is because we're not asking people to make a choice. We're saying, we're going to give you the best total cost of ownership, and we're going to knock out the emissions in the process, and we're winning. And others are going to follow because they need to take the same approach, right? I mean you need to become more energy efficient, and you need to do that with a better carbon emissions profile. And we could wait for codes in 2025 and 2030 and all this stuff, but we don't need to. The innovation is there. So more of that we can make this an economic benefit, we don't need to wait for standards. But when you get to the tail end of this thing, yes, sure. Standards help, code, all those things have kind of locked in.

Answer – Operator: Your next question comes from Andrew Obin with Bank of America.

Answer – Andrew Burris Obin: Just a couple of simple questions for me. First one on unitary market in North America. How do you look at the health of the unitary market, right? Because I think if you look at the broader commercial markets, right, hospitals and schools and universities, looks like they're quite well funded from bond issuance and all that good stuff. But how do you look at sort of smaller commercial market with a lot of restaurants hurting with a lot of retail hurting? Can you just compare and contrast the dynamic in the unitary market with the applied market?

Answer – Michael W. Lamach: Well, in the market, I mean, that's the place you don't want to be, right? If your business model is around light commercial and it's around big box retail and national accounts and those sorts of things. I mean that's clearly kind of where the risk is. But again, I'm confident that eventually, we're going to be able to open the economy. People are going to go spend time in social spaces, restaurants and movie theaters. And if you're looking for a proxy about when do things start to really improve, it's when the people you know that have been the most careful in this pandemic feel comfortable eating inside and going to a movie theater. But those markets are going to be tough. And you hear about restaurants and small businesses maybe being closed at a 30% rate, permanently closed. But clearly, there's unitary markets that absolutely are booming, and you think about warehousing and people shopping online because they don’t go to retail and the fact to get people in warehouses to work, they need to be conditioned spaces. And so we're seeing the warehouses weren't conditioned, we're seeing conditioned today. You're seeing that in a lot of markets. But the net of it is you got to keep an eye in the markets that are going to grow that are not structurally impaired and you got to be cautious about the light commercial and retail markets. And we

made that decision 10 years ago about where we wanted to play, which was data centers and warehousing, those sorts of places.

Answer – Andrew Burris Obin: Got you. And just a follow-up question. You sort of started out talking about your acquisition. I was a little bit light, so I apologize. But 2 questions. Right now, you have this balance between owned and independent. So how much can you sort of move the needle going forward to owning the channel? And how do you look at a trade-off, right, between owning the channel super stable, high-margin revenue stream, you can look where is trading, a very healthy multiple for the market. So you're going to and the multiple long term. But at the same time, what we've heard from the dealers look stand-alone dealers a lot more entrepreneurial and sort of long term, how do you think about the balance between independent channel versus owning the channel?

Answer – Michael W. Lamach: Yes. Yes. Thanks, Andy. And then you realize that dealers are not a ubiquitous term here in our company, right?

Answer – Andrew Burris Obin: It's the wrong term. I know dealers is the wrong term actually.

Answer – Michael W. Lamach: Just to clarify though, like...

Answer – Andrew Burris Obin: I deal as I know.

Answer – Michael W. Lamach: TK is going to always be an independent channel for us. Our commercial business is 90% commercial channel going to 100%. And our residential channel is 50%-50%. And that's the only place that we make an analytical decision to say what's best for share and margin expansion. Can somebody do it better locally? Do we need to do it? How do we grow? So our view is TK independent, commercial HVAC is going to be wholly owned and direct. And then residential is going to -- which is a U.S. discussion in Canada, it's going to be mixed with a sole focus on margin and market share.

Answer – Operator: Our next question comes from Gautam Khanna with Cowen.

Analyst: Gautam J. Khanna, Cowen and Company, LLC, Research Division - MD & Senior Analyst

Question – Gautam J. Khanna: And congrats on the quarter. Most of my questions have been asked, but I did -- I'm just curious about the 2 things. One, anything incrementally you've seen competitively that's changed? There was talk about Goodmen having some COVID-related interruptions in the latter part of last year. And I just wondered if there were any kind of weird things that may not recur in '21 that may have benefited results in '20? And then relatedly, maybe just longer term, what do we think about some of the codes and standards? And I think there's like a 2023 mandate on different refrigerants and what have you? Just can you remind us of some of the upcoming regulatory potential drivers of product changes and demand?

Answer – Michael W. Lamach: Well, on the first part, the simple answer is no. We're not seeing a lot of difference. And 2020 was a year that I'm sure that more than one company would have had issues one way or the other. And clearly, it was a strange year in that regard. But the competitive dynamics largely remain intact, and our strategy fundamentally remains intact. Because over a long period of time now, we've been winning share with it. So back to question, we are absolutely all about market share and margin in the rest business and look forward to competing with the competitors that structurally may or may not have had issues. But fundamentally going forward, it's a market where efficiency ratings are set, and your input costs are fairly known. And if somebody is going to drop price precipitously, we can tell you a point drop in price, you better get 10 points of revenue to offset that because that's about the math on that equation. So I don't think there's going to be any strange behavior happening in the markets going forward. Dave, on the 2023?

Answer – David S. Regnery: Yes, Gautam. On the 2023, you're right, there's an efficiency change. We're ready for it, okay? Actually, a lot of our portfolio today already meets that efficiency change. As far as refrigerant, I think that was your second and follow-on there. The next refrigerant change really is 2025 in California. And again, we're looking at different options there. And there's some time. That was originally going to be 2023, it got pushed back a bit by California 2025. So short answer is 2023. Yes. We're -- our team has been working on that for a while. A lot of our portfolio already meets that requirement. And the refrigerant is out a few years.

Answer – Operator: Your last question comes from Jeff Hammond with KeyBanc Capital.

Analyst: Jeffrey David Hammond, KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Question – Jeffrey David Hammond: Just 2 quick ones. On resi, you said strong backlog. Do you think that kind of the second half growth rates are sustainable into the first half, just kind of given backlogs and people wanting to kind of ensure supply and we have the stay at home dynamic?

Answer – Michael W. Lamach: No. No. I think you just kind of go into more normalized behavior. It was just an anomaly in 2020. So no, it's really tough comps.

Question – Jeffrey David Hammond: No, no. I mean, I'm just speaking to the first half. And it just seems like dealers and distributors want to kind of be fully stocked, given they were caught short, and there does seem to be kind of strong backlogs, as you said, into the first half?

Answer – David S. Regnery: Jeff, you guys, it's going to be -- the first half is going to be easier comps, obviously, than the second half. And we know what -- everyone knows what happened last year, right? Everyone was a little conservative coming into the season, some heat hit. And then all of a sudden, we got little some of the other DDS got caught a bit short. So but it's going

to be a first half, second half phenomenon. But overall, as Mike said, we expect a more normal year for resin.

Answer – Michael W. Lamach: Yes. I think a lot of distributors, too, will wait just like we're waiting to see all of us what's happening with vaccine distribution, efficacy and markets opening. But there's a bias not to get cut short in terms of inventory. But if there is a general opening and people in some scale or level are returning back to the office and work, you'd see, obviously, a little bit of a shift maybe away from overshooting that.

Question – Jeffrey David Hammond: Okay. Great. And then just on transport, you called out some outgrowth in 4Q. Just wondering what your visibility is for outgrowth in transport versus the detail you gave on kind of the markets?

Answer – David S. Regnery: I think we're going to have a great growth year for thermal. And in the Americas as well as Europe will be a little bit less.

Answer – Michael W. Lamach: But we've got the big super freezer. We've got a great product just launched 4 to 6 months ago and all of Europe, it's doing well. So yes. I mean, I don't think we want to get into sort of what we're embedding in terms of share gain there, but we would expect to outperform the market and then report that out to you as that happens.

Answer – Operator: That's all the time we have for questions today. I will now turn the call back to Zach Nagel for closing remarks.

Answer – Zachary A. Nagle: Thank you, operator. I'd like to thank everyone for joining today's call and especially for staying on a few minutes after our typical time to hear more questions and answers. So we appreciate your time. Shane and I will be around for questions as always, over the next few days and weeks, and then we look forward to seeing you all hopefully on the road live at some point in 2021. Thanks, and have a great day.

Answer – Operator: Ladies and gentlemen, this concludes conference call. Thank you for participating. You may now disconnect.