

Trane Technologies
Q4 2024 Earnings Conference Call
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Operator: Good morning. And welcome to the Trane Technologies Fourth Quarter 2024 Earnings Conference Call. My name is Regina and I will be your operator for the call. The call will begin in a few moments with speaker remarks and the Q&A session. (Operator Instructions)

I will now turn the call over to Zac Nagle, Vice President of Investor Relations.

Please go ahead.

Zac Nagle: Thanks, Operator. Good morning. And thank you for joining us for Trane Technologies' Fourth Quarter 2024 Earnings Conference Call. This call is being webcast on our website at tranetechnologies.com, where you'll find the accompanying presentation.

We're 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 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 Dave Regnery, Chair and CEO; and Chris Kuehn, Executive Vice President and CFO.

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

Dave?

David Regnery: Thanks, Zac and everyone, for joining today's call.

Please turn to Slide 3.

I'd like to begin with a few minutes on our purpose-driven strategy, which enables our differentiated financial results over time.

At Trane Technologies, we continuously innovate for a sustainable world. And our innovation is driving significant customer demand.

We are the partner of choice to ensure optimal performance while reducing energy use and emissions.

Our customers know that our solutions are green for green, good for the planet and good for the bottom line.

Our relentless intent and innovation powers our flywheel of market outperformance and strong free cash flow.

With this momentum, our proven business operating system and our uplift in culture, we are well positioned to deliver a leading growth profile and differentiated shareholder value into the future.

Please turn to Slide 4.

We expect to deliver top quartile financial performance over the long term, consistently and reliably for our shareholders. This is core to our culture and central to how we set our targets and execute our strategy across our global portfolio.

2024 was a standout year for the company.

I'm proud of how our global teams exceeded our targets, top to bottom.

We closely track top quartile performance against our core peer group and believe our performance will rank in the top quartile on organic revenue growth, up 12%; as well as adjusted EPS growth, up 24%.

We also delivered free cash flow of \$2.8 billion or 109% free cash flow conversion, enabling us to make key strategic M&A investments while raising our dividend and returning significant cash to shareholders through share repurchases.

Please turn to Slide 5.

Our relentless investment in innovation, growth, people, culture and our business operating system have yielded clear benefits over time demonstrated by our strong track record.

Since 2020, we've delivered a revenue compound annual growth rate of 12%, expanded our adjusted EBITDA margins by 400 basis points and delivered free cash flow conversion of 108%, while deploying approximately \$12 billion of capital.

We believe that consistent business reinvestment is key to our long-term success.

For over a decade, we've added a high level of incremental investments each year in high ROI projects. This has resulted in a world-class direct sales force channel and service organization.

It has also enabled us to develop cutting-edge solutions for the most pressing customer challenges, driving strong demand.

We have all the essential ingredients to execute our strategy and continue driving differentiated returns for our shareholders over the long term.

Please turn to Slide 6.

We delivered robust financial results in the fourth quarter, extending our strong track record of execution and industry-leading revenue and EPS growth.

Our global team achieved 10% organic revenue growth, 110 basis points of adjusted EBITDA margin expansion and 20% adjusted EPS growth.

Organic bookings for full year 2024 were strong, up 11%, with a book-to-bill ratio of 102% on top of 12% organic revenue growth. This contributed to a highly elevated backlog of \$6.75 billion entering 2025.

We saw strong performance across our segments, led by our Commercial HVAC businesses. Fourth quarter Americas and EMEA organic Commercial HVAC bookings were both strong, each up more than 30% out of 3-year stack. Fourth quarter organic revenues were exceptional, with Americas Commercial HVAC up mid-50s percent on a 3-year stack, and EMEA Commercial HVAC up more than 60% over the same period.

Our teams are excelling in complex, bespoke applied projects, which are key to the multiyear CapEx cycle, especially in high-growth verticals.

For instance, 3-year stack organic revenue growth in Applied Systems for our Americas and MEDIA Commercial HVAC businesses is up over 120% and 90%, respectively.

Applied Systems offer a durable (inaudible) of eight to 10x the initial equipment cost over their lifespan, meaning our strong growth in Applied Solutions presents tremendous service opportunities with higher margins that are largely still ahead of us.

Looking beyond the continued strength in Commercial HVAC, we see several tailwinds in 2025.

We believe residential markets have largely normalized and are returning to our long-term framework of GDP+ growth. The Americas transport refrigeration markets are expected to bottom in the first half of 2025, paving the way for a second half recovery and strong growth in 2026 and 2027.

In addition, the challenges associated with our actions in the second half of 2024 to tighten credit policies in China are improving ahead of our initial expectations. Given our consistent performance over time we are confident in our ability to deliver strong results in 2025.

We are initiating a strong guide for the year, which Chris will cover in more detail in a few minutes.

Please turn to Slide 7. Demand for our innovative solutions was broad-based across our segments in the fourth quarter.

In our Americas segment, Commercial HVAC bookings were up high single digits, revenues were up mid-teens in both equipment and services. Residential revenues were up low teens, consistent with the second and third quarters.

Transport refrigeration bookings were down high 20s after being up high 20s in the third quarter, reflecting the inherent lumpiness associated with the timing of large customer orders in this business. Revenues were down low teens, outperforming end markets, which were down more than 20% in the quarter.

In EMEA, commercial HVAC bookings were up mid-single digits in the quarter versus a tough prior year comp. 2-year stack bookings were up 20%. Revenue was also up low teens.

Our transport business performed in line with our expectations with revenues down low single digits.

In Asia Pacific, our team demonstrated resilience, achieving strong sequential improvement. Bookings in the region were up 8% and revenues were up 1%. The strength in the rest of Asia more than compensated for the softness in China, where bookings were down low single digits and revenues declined by low teens.

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

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 8. This slide provides a snapshot of our fourth quarter performance, showcasing strong execution across the board.

Organic revenues were up 10%, adjusted EBITDA margin increased by 110 basis points and adjusted EPS rose by 20%.

At the enterprise level, we achieved robust organic revenue growth in both equipment and services up high single digits and low teens, respectively.

Our high-performance flywheel continues to yield results with relentless investments in innovation driving top line growth, margin expansion and EPS growth.

Please turn to Slide 9.

At the enterprise level, we achieved robust volume growth, positive price realization and productivity gains that offset inflation and high levels of business reinvestment.

In the Americas, we delivered nine points of volume growth and two points of price.

Strong performance in Commercial HVAC and Residential was partially offset by softer transport results. Adjusted EBITDA margin expanded by 140 basis points, driven by volume growth, productivity and price realization.

In EMEA, we delivered six points of volume growth and one point of price with strong Commercial HVAC performance. Adjusted EBITDA margin expanded by 20 basis points, driven by volume growth, productivity and price realization.

In Asia Pacific, we delivered one point of price and volume was flat. EBITDA margin expansion was driven by price realization and strong productivity, more than offsetting inflation and business reinvestment.

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

David Regnery: Thanks, Chris.

Please turn to Slide 10. This slide outlines the key dynamics shaping our market outlook and guidance for 2025.

In the Americas, we anticipate continued strong execution and broad-based strength in core markets, with particular momentum in high-growth verticals.

Our world-class direct sales force and leading innovation are powerful competitive advantages that enable us to optimize opportunities and drive market outperformance.

We expect residential markets to return to a GDP+ framework in 2025, following a modest prebuy of around \$75 million to \$100 million in Q3 and Q4 of 2024. Most of this prebuy is expected to impact the first quarter of 2025.

For the full year, we see mid-single-digit growth in the residential business, with a tailwind from the low GWP mix.

Turning to transport.

We expect relative flat markets in 2025, plus or minus low single digits. The market should bottom in Q1, down about 25% year-over-year, then rebound in the second half, aligning with freight market recovery forecasts.

While the exact timing and speed are uncertain, ACT predicts a sharp recovery in both 2026 and 2027, up mid-teens each year.

We've continued to invest heavily during the market downturn, and we are well positioned to outperform as the market comes back.

In EMEA, we expect continued strength in Commercial HVAC in 2025 driven by strong execution in core markets and tailwinds from Thermal Management Systems, Services and key growth verticals. EMEA transport markets are expected to be flat to up low single digits in 2025, and we expect to outperform.

In Asia, we anticipate a flattish market for the year due to a soft macro backdrop and our tightened credit policies impacting the first half of 2025.

We expect muted performance in China to be offset by growth in the rest of Asia.

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

Christopher Kuehn: Thanks, Dave.

Please turn to Slide 11.

Our 2025 guidance reflects the market dynamics outlined on the prior slide, and our optimism about our ability to outperform.

It also incorporates our value creation flywheel, emphasizing continued investment in innovation, market outgrowth, healthy leverage and strong free cash flow.

We are initiating 2025 guidance with 7% to 8% organic revenue growth and adjusted earnings per share of \$12.70 to \$12.90, representing approximately 13% to 15% EPS growth.

This includes about 100 basis points of negative FX and roughly 50 basis points of growth from M&A impacting revenue, which together are expected to negatively impact earnings by about \$0.20 for the year.

We are targeting organic leverage of 25% or higher, consistent with our long-term goals.

We anticipate another year of 100% or greater free cash flow conversion in 2025.

Looking at the first quarter of 2025, we expect approximately 6% to 7% organic revenue growth driven by continued strength in commercial HVAC.

We expect adjusted EPS in the first quarter to be between \$2.15 and \$2.20, with a midpoint of \$2.17. This midpoint represents about 17% of our full year guidance, ahead of our 3-year and 5-year historical averages of approximately 15% to 16%.

Overall, we believe our Q1 guidance is strong and an achievable start to the year.

For additional details related to our guidance, please refer to Slide 18.

Please go to Slide 12.

We remain committed to our balanced capital allocation strategy, focused on deploying excess cash to maximize shareholder returns.

First, we strengthened our core business through relentless reinvestment.

Second, we maintain a strong balance sheet to ensure flexibility as markets evolve. Third, we expect to deploy 100% of excess cash over time.

Our approach includes strategic M&A to enhance long-term returns and share repurchases when the stock trades below intrinsic value.

Please turn to Slide 13.

In 2024, we deployed or committed approximately \$2.5 billion through our balanced capital allocation strategy, with approximately \$800 million to dividends, \$470 million to M&A and \$1.3 billion to share repurchases.

We made several strategic bolt-on acquisitions, enhancing our AI and digital building management capabilities, expanding specialized refrigerated transport and making multiple channel investments.

Our M&A pipeline remains active and we will continue to be disciplined in our approach.

In addition, with \$6.2 billion remaining under repurchase authorizations, we have strong flexibility as our shares trade below our calculated intrinsic value.

For 2025, we expect to deploy between \$2.5 billion and \$3 billion in capital.

Our strong free cash flow, liquidity, balance sheet and significant share repurchase authorization provide excellent capital allocation optionality moving forward.

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

David Regnery: Thanks, Chris.

Please turn to Slide 15.

We've already covered our transport market expectations in the Americas and EMEA on Slide 10, so I'll keep my comments brief.

While the Americas transport refrigeration markets have been more volatile in recent years compared to the five years preceding the 2020 pandemic, the long-term outlook remains strong. ACT forecast show an average of 44,000 trailer units per year over a 15-year period.

For 2026 and 2027, ACT projects mid-teens growth. The future looks bright, and we're excited about the opportunities ahead.

Please turn to Slide 16.

In summary, we are well positioned to deliver leading performance and differentiated shareholder returns in 2025 and beyond.

Our uplifting and engaging culture, combined with our leading innovation and proven business operating system, continue to set us apart.

I'm proud of our team's consistent track record of growth including our standout performance in 2024, and I truly believe our brightest days are still ahead.

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

Operator?

QUESTION & ANSWER:

Operator: (Operator Instructions) Our first question comes from the line of Chris Snyder with Morgan Stanley.

Christopher Snyder: Thanks for the question. I wanted to ask on Service, with Q4 up low teens again, I think America was in the mid-teens in Q4.

Service has now grown at a double-digit rate for the last three to four years. And Dave, I know you typically talk about high single-digit service growth.

So, I just wanted to get a sense for the outlook here and what's baked into this '25 guide on service, which I know in the past, you said has usually lags equipment by a couple of years. Thank you.

David Regnery: Hey, Chris, how are you doing? Thanks for the question. Yes. I'm so proud of our Service business, just the growth rates that we've seen there. Chris makes me use a 7-year CAGR on that.

So that's where the high single digit comes from and it's very high single digits.

But look, we're up low teens, in the fourth quarter, low teens for the full year.

Our Service business now from a dollar basis, is \$6.5 billion and just tremendous growth that we're seeing there.

And if you think about our backlog, right, which predominantly is on Commercial HVAC predominantly applied, that's really where our Service business was designed around our applied

solutions. And the more complex those solutions become, the more propensity for the OEM to do the service work.

So look, we'll keep our guide at the high, high single digits, but think about \$6.5 billion that's growing at close to 10% rate per year in the last couple of years have been in that double-digit range.

As you said, it's a very resilient business. And I can tell you that we're operating very well there as part of our operating system, the cadence that we have there. And we're really hitting on all cylinders right now.

Christopher Snyder: I really, really appreciate that. And then maybe turning over to the Commercial HVAC equipment.

Orders this quarter, high singles, better than last quarter, low single comp seems to be the same. And I know there's always a lot of focus on data center, but what you guys I think you talked to 13 or 14 commercial verticals.

So was that improvement, is that just a project lumpiness, or when you look across those verticals, do you see positive rate of change across some of them? Thank you.

David Regnery: Chris, Great question.

Look, our order grade for Commercial HVAC in the Americas was up high single digits.

On a 2-year stack, it's over 20%.

On a 3-year stack, it's over 30%.

So we continue to see tremendous growth in our Commercial HVAC business.

As far as the verticals, yes, we track 14 different verticals and we're seeing growth in data centers.

It's been a strong vertical for us in the past and it's going to be a strong vertical for us in the future.

But we're seeing broad-based growth.

And if you think about it, I mean the revenue for the Americas for the year was up over 20%, and we had growth in 13 of the 14 verticals. The only vertical that was not showing growth was life science and it's been challenged all year, but we're very optimistic about the future there.

So think about that.

We're showing broad-based growth. And you would expect that from Trane Technologies with the broad-based portfolio of products and services that we have.

We didn't design our portfolio of products to serve a particular vertical.

We designed it to serve the market, and that's exactly what we're doing. And if you take that with our direct sales force with deep domain expertise, knowledge at both a technical level and then within a vertical level, you could understand why we're being able to have this broad-based growth.

So we're very excited about what we're seeing in Commercial HVAC. The team is performing very well. And the pipeline, too, is very, very strong.

So we obviously we report orders, but the pipeline is what the team is working on, and that remains very, very robust.

Christopher Kuehn: Chris, I would add, thinking about our applied solutions, which impact many of those 14 verticals. Revenues in applied are up over 120% in the Americas Commercial HVAC business over the last three years.

In the EMEA business, more than 90% of. And that is building an installed base that then drive services and think of that as a few years after the installed base, the service revenues start to apply post warranty period. That's largely in front of us.

So it's a very durable tail, as Dave described, and really excited that applied serves multiple verticals.

Chris Snyder: Thank you, guys, really appreciate that.

Operator: Our next question comes from the line of Julian Mitchell with Barclays.

Julian Mitchell: Hi. Good morning. Maybe just the first question around the sort of organic sales guide through the year.

So I think a lot of investors would have expected maybe a slow start to the year and then an acceleration because of resi HVAC recovering from the prebuy headwind and TK picking up a bit.

But your organic growth guide looks very steady through the year, just one point less in Q1.

So trying to understand, does that reflect not a big headwind from resi HVAC and TK in Q1? Or does it just reflect some conservatism when we're thinking about the half and the Commercial HVAC sales growth?

Christopher Kuehn: Hi, Julian, it's Chris.

I'll start. Yes. Think about the first quarter and I'll start with residential. Dave called out the prebuy estimate that we had around \$75 million to \$100 million, we expect that should largely impact the first quarter.

It may extend beyond that. But right now we're thinking that should largely impact the first quarter.

It means residential is flat to slightly down in the first quarter. Transport markets, as you described, I mean we're seeing them bottom out in the first half of the year, probably a bit under challenge here in the first quarter.

But we're seeing continued strength in the Commercial HVAC businesses.

So think of them as up high single digits, could be 10% growth here even in the start of the first quarter.

But it's really why we have a range of 6% to 7% organic revenue growth for the first quarter.

We think the guide is in the right range and we've got opportunities and multiple ways to get there.

But you're right, I mean transport and residential will have a start that could be a little bit down in the beginning of the year, but a lot of strength coming through Commercial HVAC. And then we have multiple opportunities as we execute to the guide on the full year.

As we said, it was 7% to 8% organic revenue growth. A lot of confidence in our guide for the first quarter and for the full year.

Julian Mitchell: Thanks very much. And then just my follow-up would be around the price sort of volume outlook within the organic sales guide.

So I think fourth quarter price was sort of one to two points across the company, higher than that in the Americas. When we're thinking about the year ahead, is it sort of a similar 1- to 2-point price tailwinds in the sales mix? And any sort of concerns about customers, for example, in the resi channels pushing back on price increases?

Christopher Kuehn: Yeah, for the fourth quarter, price was a little bit above two points.

It really has been coming down over the last couple of years. And now for the full year in 2024, it's a little bit above two points as well. And the Americas would be really the driver there, a little bit above two points in the Americas.

And Julian, in 2025, we'd expect pricing to contribute about one point to maybe 1.5 points on the full year revenue growth outlook.

So on \$0.07 to \$0.08, we get 5.5 to 6, so 6.5 around volume and then one to 1.5 points come from price.

It's less of the carryover from 2024 pricing that would impact '25, just given the low nature of the contribution in '24.

It's really around the new price increases that we put in place for 2025.

On residential, you mentioned that, just to be clear on the transition to the lower refrigerant, the 454B refrigerant for us.

We're going to report that price increase, which is high single digits for that portfolio.

We're going to report that in volume, so that would not be part of price.

But think of that as on 65% of the portfolio and then about 75% of the year, three quarters of the year really being impacted but the transition for the A2L refrigerant.

We're probably in that one to 1.5 point price range for the year.

Julian Mitchell: That's great. Thank you.

Operator: Our next question comes from the line of Andy Kaplowitz with Citi. Please go ahead.

Andrew Kaplowitz: Hey good morning everyone. I wanted to ask Chris' question in a slightly different way.

I know you have the 14 verticals.

But are data center project bookings set to lead growth, for instance, in '25 versus 24? And it seems education-related bookings are holding up well there's been some concern about that. And just on the comps issue, like comps in North America continue to get a little more difficult. Can you still grow Commercial HVAC bookings in North America even against difficult comps?

David Regnery: Yes. A lot there, Andy. But look, we saw a growth in, like I said, at almost all verticals.

So yes, data centers were strong, but we had a lot of other verticals that were very, very strong. And you hit on one, education. Education has been strong. Certainly ESSER funding was a tailwind there.

But even in the fourth quarter, where ESSER funding is now at least from an order standpoint, behind us, we still saw growth in the fourth quarter. And I would tell you, the pipeline there in education is very, very robust.

So look, we do think there's opportunities and that comps get hard.

Look, we still believe there's tremendous opportunities here for growth in all verticals. If you think about the mega trends around decarbonization and energy efficiency, they continue to intensify. You think about reshoring activity in the United States, that continues to intensify.

If you think about the multiyear CapEx cycle with mega projects, that continues to have momentum. So, we're very bullish on our Commercial HVAC business.

I would tell you that the portfolio of products and the innovation that we have there, and I know I said in my prepared remarks, are green for green. When you have a solution that's very sustainable for the planet and has a great payback for the customer, it's the greatest place to be. And that's what we have at Trane Technologies.

So I'm very bullish about the future.

Andrew Kaplowitz: Very helpful, Dave. And then just focusing on margin. APAC margin was obviously surprisingly strong in Q4, maybe just comment on the durability of those margins in '25. And then I think your incremental margin dropped a little in Americas and EMEA in Q4.

You mentioned transport mix, is that really what it is? But you also talked about investments quite a bit, could you quantify how much they were and what you're thinking for '25?

Christopher Kuehn: Andy, I'll start.

So to Asia, we expected sequential improvement in Asia in the fourth quarter versus the third quarter. And our team in Asia just outperformed those expectations.

It's still going to take some time to continue to normalize in China, the tightened credit policy.

So that will probably extend into the first half of 2025.

But their decisions were the right decisions, and you're seeing that come through on sequential improvement versus what we saw in the third quarter.

Margins, look, that team has just been outstanding in terms of managing their productivity, their investments and ultimately still investing in the business.

So, let's see where margins go going forward. There's certainly leading margins across the regions, and it gives us a lot of confidence that EMEA and Americas can continue to grow their margins into the future as well given just to recall our Asia business is largely Commercial HVAC that they're selling into the region.

For the other markets, very strong results in terms of margin expansion.

We're driving all of those business for 25% or better leverage into 2025.

We like that framework and the last couple of years, we've actually taken the lid off of investments.

We're making sure that we can drive strong leverage and also accelerating as many investments as we can, and that's really across all three of our regions.

Otherwise, I think that hopefully answers the question.

We got a lot of confidence that we're going to be able to grow the margins and really the leverage what the investments we're making.

David Regnery: Yes. I'll just add that, look, I'm super proud of the team in Asia.

I know Asia, it's only 8% of our revenue, 50% of that is China, 50% is outside the rest of Asia.

But I mean just great performance. I mean the rest of Asia had 10% growth, and it had order growth in the high teens.

So a very strong performance there. And as commented, the team and China just executed very well implementing our new credit policy. And the credit tightening policy was the right prudent thing to do.

And I was very clear on the third quarter, if we don't have an order down payment, we're not going to take the order.

And in the fourth quarter, we made some adjustments to our backlog to make sure that everything in the backlog had down payments in it. So that team is just executing at a very high level.

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

Amit Mehrotra: Thanks. Morning, guys. Dave, can you talk about the margins just coming back to the service conversation at the front of the call just trying to understand the margin opportunity in the Service business over time.

I know there's a lot of investments in technology to make technicians more efficient, maybe predictive maintenance, I'm hoping if you could just speak to the runway there just given obviously the a third of the business and the installed base is growing quite rapidly. And a few years from now it could be quite larger.

So if you can talk about that.

Christopher Kuehn: Amit, its Chris. I'll start.

Look, we like the margins in the Service business.

Its higher margins when you think about what we're delivering to customers and making sure that their products are running efficiently. As Dave has described in the past, the service business is rapidly evolving from running to go fix something that's not working effectively, to now making sure that the equipment is always optimized right?

It may be running. You may think it's operating well but the fact is it may be operating inefficiently, and therefore, that's a really nice opportunity for us.

So it gives us a lot of confidence that we should be driving organic leverage 25% or better. And reminder, Service is a third of the enterprise revenues. It remains a third of the enterprise revenues. And you're right, the investments that we've been making across our portfolio also include investments in our Service portfolio.

So, think about service technicians, think about front-end tools, digital in terms of diagnostics. That's a great area to take the lid off and keep investing in that part of our portfolio.

David Regnery: Yes One of the things that we announced in the quarter too was the closure of an acquisition, BrainBox AI, and that's really going to help our service business as well in the future. So if you think about today, we have 42,000 roughly connected buildings.

We have well over 2 million connected assets.

We're getting a lot of data at the building level and at the asset level, and we'll call that structured data.

What AI does is it augments that with unstructured data. And when you combine that, that's really where you're able to make buildings operate more efficiently.

So our service teams will be a big part of that in the future. And I know you've probably heard me speak in the past about demand side management.

Look, we've done hundreds of thousands of energy audits, and we know that about 30% of the energy consumed after the meter is being wasted. And our goal is to help decarbonize that built environment and to get everything back to where the -- it was designed to operate. And if we could save that 30%, there's so much opportunity there well into the future.

Amit Mehrotra: And then just related to that, because obviously paybacks are so compelling today, which is what's driving a lot of the growth.

But there is this expectation power prices will continue to go up over the next several years, if the BrainBox acquisition probably allows the equipment to run even more efficiently.

Can you just talk about how you think the payback map evolves over the next few years? Because there's the question you routinely get is, how long is it sustainable, but if paybacks can actually improve, I wonder if this growth can actually reaccelerate?

David Regnery: I think you're spot on.

I don't think anyone is projecting that the cost of energy or at least electricity is going to go down in the future, right? So if you think of the paybacks, it's actually going to become more punitive if you're not running the system the way it was designed.

So the paybacks will actually increase.

So we think there's a tremendous opportunity in demand side management, and we're executing to that strategy. BrainBox can be a big part of us, it's a small business today, but we've been really good at taking these technologies.

In this case, the technologies on the software side and scaling it within our channels.

So we're really excited about the growth that we're going to see in the future from it.

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

Scott Davis: Hey, good morning, guys. Congrats on a very strong year.

I want to go back -- I mean you talked a lot about energy audits, it just makes a ton of sense.

It seems like that's kind of what drives the sales cycle. Do you measure internally the number of energy audits that you do kind of each quarter? And is there such a thing as kind of thinking about that as I'll, just call it, like frontlog debt?

Energy audits are up x percent this quarter and that gives you some additional confidence on the backlog -- or on the front log?

David Regnery: It's a great question, Scott. But obviously we have a lot built into our operating system around our energy managed audits that we do.

So I won't disclose too much there.

But absolutely, we track a lot of different metrics, okay. And a lot of them are leading metrics and that would be one of them, but we track a lot of others as well.

At the end of the day, when you're connected to an asset, you're going to make sure the asset is performing the way it was designed, and it's not wasting precious energy. When you show that to customers and they start to understand it, it becomes very compelling. And now with the addition of not only the structure or machine learning data that we've been able to drive in the past, this unstructured data that we bring into the equation with BrainBox, we're able to drive results that we didn't think were possible three or four years ago.

Scott Davis: Can you use AI now to do a digital twin meaningfully faster than you could in the past? Are we there? Are we at that point yet?

David Regnery: Yes. We do a lot of work with digital twins.

I'm not sure if you saw when you went to 55 Water Street because I think we demonstrated one there. The speed is always getting better and the tools that we're using.

Obviously, we're using all the tools that we have available to us, and AI is one of those tools. Certainly, there's other tools as well that have really sped up that process.

But when you can see it visually and you see the digital twin and then you see the before and after, it's very, very compelling for the customer to understand the impact that we're able to have by constantly monitoring the equipment and constantly making sure it's at the at the peak performance levels.

Scott Davis: Thanks. Best of luck this year, guys. Appreciate it.

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

Joseph Ritchie: Hey guys. Good morning. So look, for better or for worse, your stock at times tends to trade the sentiments surrounding AI, CapEx and data centers.

I guess just maybe as you kind of -- as you think through like the trajectory of your data center business from here, maybe just give us some color on how you think that you expect that to progress. And then also just on your Commercial HVAC backlog, are you still well above normal on that backlog in terms of how long cycle it is? Or is it starting to normalize?

David Regnery: Why don't I start with the backlog, I'll get to the data center question.

Look, our book-to-bill in 2024 was over 1, it was 102%. And our backlog year-over-year was relatively flat, it's down a little bit. What everyone needs to understand is we had a couple of adjustments that occurred within the backlog.

There's really three. One is currency worked against us all year. Two is, I've been very clear in Asia, specifically in China, that if we don't have a down payment, we're not including something in our backlog. So we adjusted that out of our backlog.

And then the third is the normalization of our of our transport businesses, which have been under pressure all year. That accounts for about \$0.5 billion of backlog adjustments that we took in the year. So if you think about it, our backlog would actually be up year-over-year versus what we're reporting right now.

That said, our backlog is very, very elevated, which gives us a lot of visibility into 2025, and that's why Chris and I could speak with so much confidence about the guide that we're putting forward.

It gives us great visibility. And the other thing that we track a lot of is the pipelines, and these are orders before they become orders, that activity remains very, very robust.

As far as data centers go, look, data centers have been a strong vertical for us for decades, and they'll be a strong vertical for us well into the future.

As far as the news about new competitor coming out of China and the impact that will have, we'll see.

I can't comment on that, I could just comment on what we're seeing right now. And we're seeing a lot of growth in data centers, and we're seeing a lot of pipeline activity in data centers.

I had the opportunity to listen to the earnings call of Meta last night. And if you listen to them, they would say that they're building out their infrastructure, and that's part of a competitive advantage that they have.

So it doesn't appear as though they're going to be slowing anything down.

But we'll wait and see.

But everyone needs to understand that we're much more than just data centers.

Data centers are strong. They've been strong in the past.

We're really good in that vertical.

But we're really good in 13 other verticals that we track very, very closely.

Joseph Ritchie: Super helpful and bless you to whoever sneezed in the background. The quick question follow-up there, just maybe just a tariff question. Any comments on how you see this playing out? And any thoughts and your potential exposure there?

David Regnery: Yes.

I mean good question, Joe. Look, for decades now we've had a manufacturing strategy of in region for region. So you think about in the Americas, we have a plant in Mexico. We have over 20 plants in the United States.

We have plants throughout Europe.

We have plants throughout Asia.

Some in China, some outside of China.

So look, we've dealt with tariffs in the past.

Should it happen, we'll react.

Do I think they could impact our supply chain? For sure, there's a little bit of flexibility there. But they will have an impact.

But part of our operating system is we understand our cost inputs. And if we see something change, we're going to react, and we're going to act very quickly to make sure that we stay margin neutral over time.

Operator: Our next question comes from the line of Steve Tusa with JPMorgan.

Steve Tusa: Hey. Good morning. Always interesting times.

So I guess just on this resi guide. Roughly, I don't know 4%-ish on the mix benefit, which you'll call volume. A 1.5%, maybe 2% headwind from prebuy, this is all annual.

So what are you thinking about like the market on like a volume basis this year, just like from an underlying demand and replacement events perspective, if you will?

Christopher Kuehn: Yes, Steve, it's Chris. You're right. There's three elements that really come into the guide of around mid-single-digit revenue growth for residential. The first one would be that mixed tailwind from the A2L refrigerant change, right? You can think of that as maybe around four points.

High single-digit price on 65% of the portfolio multiplied by, say, 3/4 of the year impact, gets you around four points.

The view around a GDP+ framework would be the second element. Think of that as maybe three to four points of growth from returning to GDP.

IRA tailwinds, right, that money is at the state level and it's really starting to be deployed. That could be a tailwind for 2025. And then items around consumer confidence, tax cuts.

Those are all things that could be beneficial to the -- to a GDP+ framework for the year.

And then the third element would be that prebuy dynamic, which is probably around 3 percentage points of a headwind.

So altogether, you get into that four to 5-ish range on growth, which is our guide for the year around residential.

But to be fair, if it turned out that things were softer in the markets, and it wasn't necessarily growth, but it was flattish, really, the impact to our enterprise revenues would be less than one point.

It would be 70 or 80 basis points. And we really feel comfortable we've got that and it's manageable within our guidance for the year.

Steve Tusa: Yes. That makes sense. What do you guys see in light commercial? What's your expectation for the year on light commercial?

Christopher Kuehn: We certainly think applied markets are going to grow faster than the unitary markets will for 2025, we'll see where it plays out. The best thing about Trane Technologies is we've got the broadest portfolio of products. And unitary versus applied, it's harder and harder to kind of figure out what the need for the customer is.

We're looking at a solution, and many of the tons will involve multiple products to ultimately deliver the energy saves that they need.

So let's see, but probably more growth in applied for 2025 than unitary.

Steve Tusa: Okay. And just sorry, one last thing, given services is such a topic. Dave, you said like 8x to 10x, I think, the multiplier on Services. That just seems like a big number for an asset that has like, I don't know a 30-year useful life that basically people are spending that much money every like three years to service.

Is that really like the considered an annuity? Or is that more like every five years, they do like a major refurb or something like that? Like how visible is that revenue? Because it just seems like a really big number for a guy or an equipment owner to spend relative to this initial buy?

David Regnery: Just understand 8% to 10% over the life of the asset, right? So the asset is going to add 30 years and the added cost \$1 million, think of it about \$8 million in service over that time period.

But yes, I mean there's the maintenance that happens. And then obviously at some point in the useful life, you tend to do our renewals for it, where you'll change out controls or make it run more efficiently just because technology continues to advance. So we're very comfortable with that number.

We've done a lot of analysis on that with the old base. So I'm very comfortable with the 8x to 10x over the life of the asset.

Operator: Our next question comes from the line of Jeffrey Sprague with Vertical Research.

Jeffrey Sprague: Hey, thanks. It's a little chilly in Connecticut. It's warmed up recently.

But yes, we're not needing any HVAC well we don't need an AC, we need some H., that's what we need.

David Regnery: You probably need a heat pump, Jeff.

But go ahead.

Jeffrey Sprague: Yes. Yes.

So a lot of ground covered, a little maybe nits for me. Just first on backlog.

I think you include everything in backlog regardless of how far out it reaches.

Maybe you could just give a little color on kind of the backlog staging, what's deliverable into '25, and how far out it does reach.

Christopher Kuehn: Yes, Jeff, it's Chris.

I'll start. So \$6.75 billion of backlog at the end of 2024. Again, the majority of that, call it, 90% is going to be driven by Commercial HVAC globally. And then of that, it's going to be or applied systems.

That backlog, the majority of it will revenue in 2025.

So that's actually fairly consistent with how we've seen the backlog in terms of the growth over the last few years, that the majority will turn in, in 2025. There'll be a small amount that will push out into 2026, and that's really at the customer demand.

But the majority of that backlog will turn within 12 months.

David Regnery: And Jeff, remember, we don't have services in the backlog.

Jeffrey Sprague: Right. And the majority doesn't mean 55% means 80% or 90% or something like that, it sounds like.

Christopher Kuehn: Yes. And then it's not a tick above 51% or 50%. But no, absolutely right.

Jeffrey Sprague: Yes. And could you just also just really in the weeds on resi, how sort of -- how do the 2-step channel perform in the quarter versus your internal channels as we kind of think about all the pre-buy generations we went through here?

David Regnery: The pre-buy obviously happened in the two steps with our IWTs, independent wholesale distributors, Think of that prebuy, that \$75 million to \$100 million, Jeff, as between Q3 and Q4, right? We don't think it was all in Q4.

It's hard to tell because we're estimating. But we think probably about 50% was in Q3, 50% of it was in Q4.

But we also think, as Chris said earlier, that the majority of that will be impacted in the first quarter.

Some of it will probably go into the second quarter, but we can give you guys an update on that when we get that point.

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

Nigel Coe: Lots of questions on services, so here's another one.

So I probably should know this, but what is the mix between predictive, connected type services versus, I guess, transactional servers, where there's a phone call from a customer where there's parts involved, et cetera? So just wondering what that mix is. And does it matter? I mean is there growth differential? Is there a margin differential between connected versus transactional?

David Regnery: Yeah. It really doesn't matter. But we haven't disclosed that, Nigel, for a lot of different reasons, but we're strong in both.

I mean obviously we want to encourage our customers to have agreements because -- we make sure that the assets, we do more maintenance then to make sure that the assets are performing.

But obviously we're going to respond if we get just a cold call saying, hey, my system is down, can you help me. And then what we'll do is if that happens, the goal is to make sure that we try to sign that customer up for a more comprehensive service agreement over time.

Nigel Coe: Okay. And is there a margin differential between whether the contract is more transaction?

David Regnery: I'll say no, but there might be one if it's a cold call okay, depending on what's going on.

We try not to, because if someone's in a dire need, we are not going to charge them more. That's usually not a long-term way to grow a business.

So we try to be competitive in both just because we want the customer for life.

Nigel Coe: Okay. And then a question on BrainBox.

It seems like it's quite a chunky deal.

It looks like \$30 million or so.

So just wondering if you could just give any details on the size, growth profile? How you can like really kind of really expand this business? And then a note accounting question for Chris, I think this sounds like a very tangible heavy business.

So just curious if the intangible amortization is coming down when we think about that step down in the Trane amortization from 15 years ago?

Christopher Kuehn: Yes. Nigel, I'll start with BrainBox. So less than \$300 million from a purchase price.

We had another meaningful acquisition that we closed on in the first week of January like we did with brain box, actually over in Europe acquiring one of our independent channels there very similar to a strategy that we have in the U.S.

So -- but yes, less than that from an EV perspective.

And not dissimilar to Nuvolo in 2024 with early-stage technology company, has a lot of amortization expense.

So we're expecting that to happen in 2025 for BrainBox.

It's part of the guide in terms of the FX headwind. And the amortization from the newly acquired business will have about a \$0.20 negative impact on earnings. -- And we've got that incorporated in our guide.

But you're right, that's kind of the accounting rules around the acquisition.

On the accounting rules going back to Trane, you're right, we start stepping down on the Trane amortization in 2025.

It's around \$25 million or \$30 million of lower amortization expense, that's really being offset fully with the investments we've made over the last few years in CapEx and the rising depreciation that comes from that.

We've also had a few acquisitions that have some higher amortization as well.

So in 2025, the net impact of that benefit from the Trane amortization is really offset in the nil. Let's see this in 2026.

It's a bigger step down in '26 on Trane amortization, we'll update you then for next year.

But for 2025, it's really a neutral impact.

David Regnery: Yes. And as far as the growth rates go, Nigel, we're pretty excited about it.

It's small today, but we like these technology companies that we can scale.

We have 42,000 buildings, right? So there's 42,000 potential customers that we already have the data on and we're going to start running algorithms against it to understand what the increase could be with structured and unstructured data together.

So this is going to be exciting. And like I said, it's going to be a nice tail for our service business earlier.

Operator: Our next question comes from the line of Deane Dray with RBC Capital Markets.

Deane Dray: Thank you. Good morning. Maybe just circle back on the prebuy. It seems like it was relatively uneventful, at least in terms of how you were positioned.

But if you just step back, anything that surprised you in terms of the demand, the timing? And there's always this nuance about competitive positioning, who cuts over first.

But kind of just the postmortem, was there anything that you'd call out in terms of what you were expecting or what didn't play out?

David Regnery: Not really, Deane.

I mean we've said for a long time we thought it would be a modest prebuy, it was. The team did a nice job of executing the changeover to the A2L refrigerant.

We're fully operational on 454B product now.

We have the capability of running mixed model lines in our factories, so we can support the aftermarket for 410, which will be needed.

But not a lot.

I mean it was pretty much as we predicted.

The only thing I would say maybe a little bit different is we probably had more of the prebuy in Q3 than we anticipated.

I didn't realize it was kind of a pre-buy until we got into Q4.

So that would have been the only maybe oddity.

But it makes sense though, too. Why would you wait until the fourth quarter if you were going to do a prebuy and you might not have products.

We probably saw more in Q3 than I anticipated.

But again, we're talking about relatively small numbers that really don't have a big impact on results.

Deane Dray: Good to hear. And I also like hearing that you say 410 is going to be around for a while because I will be a user of that.

David Regnery: We'll help you out.

Deane Dray: It may happen to be one of your units.

So that's good to hear. And then just second question, just circling back on China and that whole tightening the credit.

It seems to have played out exactly the way you said you would be, getting the down payments and maybe some progress payments.

But when I hear about tightening credit, it also makes me think that you actually turned down some customers or maybe shying away from particular verticals.

So has there been any selectivity going on maybe related to this credit sensitivity?

David Regnery: Yes.

I mean at the end of the day, we're just tightening credit.

What we're doing there is we're requiring down payments, right? We're requiring a down payment when the order comes in, and we're requiring additional down payment before the order will ship.

So it's not specific to any one vertical or any one channel, that's just the rules of the game that we're operating with.

And the team is doing a nice job of educating our customers as to the why. And -- but we made nice progress in the fourth quarter compared to the third quarter.

We have some work in front of us in the first half of 2025. But this is our new way of doing business in China.

Operator: Our next question comes from the line of Tommy Moll with Stephens.

Thomas Moll: Good morning and thank you for taking my question. Chris, you called out early in the call that if we look at the first quarter earnings contribution as a fraction of the full year outlook you've provided, it's a bit higher than the average.

I thought about it differently just given the transport and resi headwinds in the first quarter.

So is there something we're missing that changes as you go into Qs 2, 3, 4? Or is it perhaps some conservatism just about what's longer dated here? Just help us triangulate there.

Christopher Kuehn: We wanted to call out, Tommy, that EPS as a percent of the full year guide is around 17%.

It's normally 15% to 16%.

So we are starting this quarter a little bit ahead of that three-year and five-year average, which we just wanted to make sure everyone understood.

It's a strong guide for the first quarter, and we have a lot of confidence in it.

As you work throughout the year, though, the transport markets are going to be expected to be down in the first half. There's expected recovery starting in the second half of the year roughly flattish, maybe plus or minus low single digits for the full year, but growth in the second half. And really what's exciting is the growth expectations for 2026 and 2027 in the transport markets in the Americas.

So we'll see how the year plays out.

But yes, there's more of a headwind in the first half of the year from transport.

Residential in the first quarter, a little bit more of a headwind from that prebuy, right? We think that will largely impact the first quarter.

It may drip into the second quarter or beyond.

We'll update as we go throughout the year, but that will really normalize, let's say, by the second half of the year, and we'll see where growth is based on market conditions and then the tailwind we're getting from A2L pricing.

So those are the two that would stand out to me.

Maybe the third would be Asia. Again, that new business in China and our team, again, executing very well there, that could be a little more headwind in the first half of the year. Much easier comps as you get into the second half of the year in Asia.

So I think those three would probably really be the dynamics I'd call out now.

Thomas Moll: And then as a follow-up, I wanted to ask about the comment made on some recent investments in channel.

I just want to ask if there's anything more you can share there. Dave, I think you mentioned one investment in Europe.

But if there's anything you want to call out in terms of a strategy update there, please do.

Or if this is same as before and just some opportunistic transactions, let us know that.

David Regnery: Yes.

Look, we've been buying up our independence in our Commercial HVAC business for a long time. And these are great businesses. They had great leaders. And it's opportunistic for us to buy them off.

So nothing's changed there with our strategy. There's not a lot of them left, unfortunately, because they're great acquisitions and they become accretive very, very quickly, like almost instantaneously.

But that's just -- it's just more of the same. And we just had one this time. It was actually in Belgium over in Europe.

Thomas Moll: Yes. So think of it as we've been 95% plus direct, and it's these last few percentage points of those independent channels that when they're ready, we're ready to kind of fully bring them into the Trane business.

Thank you both. I'll turn it back.

David Regnery: Sure. Thanks, Tommy.

Operator: And that will conclude our question and answer session.

And I will now turn the conference back over to Zac Nagle for closing remarks.

Zac Nagle: Thanks, Operator.

I'd like to thank everyone for joining today's call.

As usual, we'll be available to answer any questions you may have in the coming days and, frankly, in coming weeks.

We'll also be on the road in the next couple of months, attending conferences and other things. And so we hope to see you in person very soon.

I hope everyone has a great day. Thank you.

Operator: And this will conclude today's call. Thank you all for joining.

You may now disconnect.