

1 – 29 - 2026

Trane Technologies plc

Q4 2025 Earnings

Trane Technologies plc

Q4 2025 Earnings

CORPORATE SPEAKERS:

Zac Nagle

Trane Technologies plc; Vice President of Investor Relations

David Regnery

Trane Technologies plc; Chair and Chief Executive Officer

Christopher Kuehn

Trane Technologies plc; Executive Vice President and Chief Financial Officer

PARTICIPANTS:

Julian Mitchell

Barclays; Analyst

Scott Davis

Melius Research; Analyst

Christopher Snyder

Morgan Stanley; Analyst

Andrew Kaplowitz

Citigroup; Analyst

Amit Mehrotra

UBS; Analyst

Andrew Obin

Bank of America; Analyst

Thomas Moll

Stephens; Analyst

Noah Kaye

Oppenheimer; Analyst

Jeffrey Hammond

KeyBanc Capital Markets; Analyst

Joseph Ritchie

Goldman Sachs; Analyst

Jeffrey Sprague

Vertical Research Partners; Analyst

Nigel Coe

Wolfe Research; Analyst

Stephen Tusa

JPMorgan; Analyst

PRESENTATION:

Trane Technologies plc

Q4 2025 Earnings

Operator^ Good morning. Welcome to the Trane Technologies Fourth Quarter 2025 Earnings Conference Call. (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. Thank you for joining us for Trane Technologies' Fourth Quarter 2025 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 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 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 thoughts on our purpose-driven strategy, which continues to drive consistent outperformance over time. Demand for energy has never been greater. Digitalization, industrial growth and new technologies are putting pressure on Energy Systems. Customers are looking for smarter, more efficient ways to run their operations.

That's where Trane Technologies is uniquely positioned to win. Our solutions help customers save energy, lower operating costs, and create more balance and flexibility in how they use energy. It's proof that sustainability and performance go hand-in-hand.

As we look ahead, our innovation and expertise continue to set us apart. With our exceptional backlog, robust demand, proven business operating system and leading innovation, we're well positioned to continue delivering differentiated value well into the future.

Trane Technologies plc

Q4 2025 Earnings

Please turn to Slide 4. 2025 was a strong year for the company. Our global teams executed at a high level, enabling us to exceed adjusted EPS guidance despite softness in residential and transport refrigeration markets. Free cash flow remained robust, funding strategic M&A, a growing dividend and significant share repurchases. Bookings were also exceptional. Our Commercial HVAC businesses in Americas and EMEA added \$1.3 billion in backlog versus year-end 2024, strengthening our visibility into strong growth in 2026 and beyond.

Please turn to Slide 5. Relentless investment in innovation, growth, people, culture and our business operating system has delivered clear sustained benefits, reflected in our strong and consistent track record. Since 2020, we've achieved an 11% revenue compound annual growth rate, a 24% adjusted EPS compound annual growth rate, expanded adjusted EBITDA margins by 470 basis points, and delivered free cash flow conversion of 106%, while deploying over \$15 billion through our balanced capital allocation strategy.

Consistent reinvestment has been central to our long-term success. For more than a decade, we've steadily invested in high ROI initiatives, built a world-class direct sales and service organization, and developed cutting-edge solutions for our customers' most pressing challenges, driving sustained demand. We have a proven track record and all the essential ingredients to execute our strategy and continue delivering differentiated returns over the long term.

Please turn to Slide 6. We delivered strong fourth quarter performance, highlighted by exceptional enterprise organic bookings up 22%, driving record backlog of \$7.8 billion. Organic revenue grew 4%, led by continued strength in our Americas Commercial HVAC businesses and our global services business.

We also delivered 10% adjusted EPS growth and robust free cash flow. Exceptional bookings were led by our Commercial HVAC businesses. Americas Commercial HVAC was again a standout delivering record Q4 organic bookings, up more than 35% year-over-year. Applied Solutions bookings were up more than 120% with a record book-to-bill of 200%, marking the second consecutive quarter with applied bookings growth exceeding 100%. EMEA HVAC also delivered strong results, with its second straight quarter of mid- to high-teens organic bookings growth. Commercial HVAC backlog is substantially higher versus year-end 2024, with backlog up approximately 25% in the

Trane Technologies plc

Q4 2025 Earnings

Americas and nearly 40% in EMEA. Importantly, the backlog is predominantly applied, which carries a long higher-margin services tail.

As we enter 2026, we are well positioned for growth, especially in areas where disciplined execution to our business operating system is a key driver of success. In Commercial HVAC, exceptional bookings growth and record backlog give us strong visibility to future revenues and market outgrowth. Projected pipelines remain robust and continue to build.

Even after two consecutive quarters of more than 100% applied growth in Americas Commercial HVAC, we continue to see substantial opportunities ahead. Our Services business, about one third of enterprise revenue, remains a durable and consistent growth engine with a low teens compound annual growth rate since becoming Trane Technologies in 2020. We continue to invest heavily in services and expand our digital capabilities to deliver advanced solutions with compelling value and attractive paybacks. We are confident Services will remain a strong growth driver in 2026 and beyond.

Two additional factors have the potential to accelerate growth in the back half of the year. Residential markets were a tale of two halves in 2025, with a significantly weaker second half. We expect 2026 to get progressively better, with tailwinds building later in the year as comps ease. Similarly, industrial forecast, including from ACT point to a transport market recovery beginning late in 2026 and extending into 2027 and beyond, a view we largely share. This should support growth in the fourth quarter and beyond. Our guidance reflects this backdrop, and Chris will elaborate shortly.

Please turn to Slide 7. Americas Commercial HVAC continued its standout performance with bookings up more than 35% and revenue up low double digits. Growth was broad-based across nearly all verticals and in both equipment and services. In residential, bookings were up mid-single digits, while revenues declined mid-teens, reflecting the normalization of channel inventory in the quarter. In Americas transport refrigeration, bookings were down mid-single digits and revenues were down low single digits, outperforming transport markets that declined more than 20%.

In EMEA, Commercial HVAC bookings were again robust, up mid-teens and revenues were up mid-single digits. EMEA transport bookings were down low single digits and revenues declined at a similar rate, outperforming end markets that were down mid-single digits. In Asia Pacific, China remained challenging with double-digit declines in

Trane Technologies plc

Q4 2025 Earnings

bookings and revenue. The rest of Asia performed as expected, with bookings up low double digits and revenues down low single digits.

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

Christopher Kuehn^ Thanks, Dave. Please turn to Slide 8. Dave covered many of the key points from this slide earlier, so I'll keep my comments brief. Q4 organic revenue grew 4% and 7%, excluding residential, consistent with the dynamics we've already discussed. Margins were impacted by proactive measures taken to normalized residential inventory which reduced factory production days by a third and resulted in roughly 60% deleverage in that business.

Please turn to Slide 9. In the Americas, we delivered 5% organic revenue growth driven by strong Commercial HVAC volume and positive price, partially offset by residential declines. Margins were lower mainly due to residential deleverage. We also stepped up innovation and growth investments. In EMEA, organic revenue grew 2%, led by Commercial HVAC. Adjusted EBITDA margin declined 160 basis points, reflecting year one acquisition and integration costs.

As noted throughout the year, channel investments in M&A in 2025 weighed on near-term margins, but position us for stronger long-term growth. In Asia Pacific, organic revenue declined 6%, and adjusted EBITDA margin declined 20 basis points. The team managed costs to limit deleverage while continuing to invest in the business.

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

David Regnery^ Thanks, Chris. Please turn to Slide 10. Overall, Q4 played out largely as expected, with residential revenues a bit better than anticipated, and Commercial HVAC bookings even stronger. Our Americas Commercial HVAC business continued to execute at a very high level, significantly outperforming end markets. Bookings and revenues are compounding at strong rates, especially in Applied Solutions.

As noted earlier, our exceptional bookings, record backlog and rapidly expanding pipeline give us a high level of confidence that 2026 will be another strong year. Based on customer delivery timing and year-over-year comparisons, we expect solid growth in the first half and even stronger growth in the back half. In residential, we believe channel inventory is largely normalized as we enter Q1.

Trane Technologies plc

Q4 2025 Earnings

Our outlook for the market for 2026 is prudent, flat to modestly lower with Q1 expected to be the trough, down about 20% given the high teens growth we saw in Q1 2025. We expect the market to return to growth in the second half. In the Americas transport markets, ACT forecast trailers down about 7% in 2026, and our view is generally aligned. Market indicators are improving, and we expect the sector to turn positive late in 2026 and into 2027. We expect to again outperform the market. In EMEA, Commercial HVAC enters 2026 following a significant investment year and strong 2025 bookings that lifted backlog nearly 40% year-over-year.

We expect a softer start with mid-single-digit growth improving to high single-digit growth in the second half as backlog converts. EMEA transport markets are expected to be flat to modestly lower. The team grew low single digits in a down market in 2025, and we expect them to outperform again in 2026. In Asia Pacific, we expect mixed performance with the rest of Asia outperforming China. For the region as a whole, we expect relatively flat performance in 2026.

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

Christopher Kuehn^ Thanks, Dave. Please turn to Slide 11. Our 2026 guidance reflects the market dynamics we've discussed and operational excellence driven by our business operating system. It also incorporates our value creation flywheel, continued investment in innovation, market outgrowth, healthy leverage and strong free cash flow. We are initiating 2026 guidance with 6% to 7% organic revenue growth and adjusted EPS of \$14.65 to \$14.85, up 12% to 14%. We expect about 50 basis points of growth from FX and roughly 200 basis points from M&A, either closed or committed for early 2026.

All in, reported revenue growth is expected to be 8.5% to 9.5%. We are targeting organic leverage of 25% or higher, consistent with our long-term framework and free cash flow conversion of 100% or greater. For the first quarter, we expect flattish organic revenue growth, reflecting continued strength in Commercial HVAC, offset by tough comps in residential, given the high teens growth we saw in Q1 2025 and market-driven declines in Transport. We expect Q1 adjusted EPS of approximately \$2.50. Importantly, over the past four years, Q1 has averaged slightly below 17% of full year EPS which aligns with our 2026 guidance. Given the dynamics we've outlined, we believe this is a strong and achievable start to the year. For additional details, please refer to Slide 18.

Please turn to Slide 12. We remain committed to our balanced capital allocation strategy, focused on deploying excess cash to maximize shareholder returns. First, we

Trane Technologies plc

Q4 2025 Earnings

strengthened our core business through relentless reinvestment. Second, we maintain a strong balance sheet to ensure optionality 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 our calculated intrinsic value.

Please turn to Slide 13. In 2025, we deployed or committed approximately \$3.2 billion through our balanced capital allocation strategy including about \$840 million to dividends, \$720 million to M&A and roughly \$1.5 billion to share repurchases. We advanced several strategic acquisitions during the year, and our pipeline remains active heading into 2026. The largest acquisition announced in December is Stellar Energy, a leading provider of turnkey data center cooling solutions. Stellar brings strong capability and modular design and build, positioning us to meet growing demand for prefabricated cooling systems that ease supply chain and labor constraints and enable rapid scalable deployment. Their expertise also enhances our ability to apply modular solutions across additional verticals.

We expect the acquisition to close in the first quarter, and we look forward to welcoming the team to Trane Technologies. The deal economics are compelling, and we expect modest EPS accretion in 2026, even after year one acquisition and integration costs. For 2026, we expect to deploy between \$2.8 billion and \$3.3 billion, with strong free cash flow, ample liquidity, a healthy balance sheet, and \$4.7 billion remaining under our share repurchase authorization, we have 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. The Americas Transport Refrigeration market remains dynamic, but the long-term outlook is strong. ACT forecasts the trailer market down about 7% in 2026, bottoming in the first half and improving in the back half. ACT also expects a sharp rebound beginning in 2027 including roughly 50% growth and continued expansion through the end of the decade. We expect growth as well but anticipate a more measured gradual slope to the recovery. We're managing the down cycle effectively, outperforming end markets and continuing to invest in innovation, so we're well positioned as the market strengthens.

Please turn to Slide 16. In closing, I'm incredibly proud of our global team. Third talent has powered our consistent outperformance and leading financial results over the past 5

Trane Technologies plc

Q4 2025 Earnings

years. We see tremendous opportunities ahead. With our exceptional backlog, strong demand, proven business operating system and leading innovation, we're confident in our ability to deliver differentiated long-term value and advance a more sustainable world.

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

QUESTIONS:

Operator^ (Operator Instructions) Our first question will come from the line of Julian Mitchell with Barclays.

Julian Mitchell^ Maybe just wanted to start with Americas Commercial HVAC, just to understand the guidance on revenue for the year ahead. Because I guess if I look at the orders or bookings there last year, they were up maybe 10% in the first half, up in the 30s in the back half. So with lead times and so forth, should we expect a decent acceleration in Americas Commercial HVAC revenue growth in the back half of the year ahead?

Christopher Kuehn^ Julian, it's Chris. I'll start and then Dave will jump in. That's right. I mean think about the very strong bookings growth in the second half of 2025 in Commercial HVAC. The first half was strong, up mid-teens, but we saw up about 30% -- over 30% in the second half of 2025. And when you think about Applied Systems, not uncommon to think about a 9-month cycle from order date to ship dates.

So how we see 2026 playing out for Commercial HVAC Americas is the first quarter strong growth, probably about 7% to 8% range, second quarter grows to about 10% growth, and then it is up about low teens in the second half of the year. We've dialed that in with the backlog and the timing of which when customers want us to deliver the products.

David Regnery^ Julian, it's Dave. I think as Chris described in the Americas, it's a very similar story that we see in Europe, okay? So in Europe, think of the first half of the year, orders were up high single digits. To the back half of the year, they were up high teens. So the same is exactly happening as to how our backlog which is at record levels, is layered in. The good news also is that the pipelines in both businesses are extremely strong right now. I said that at the end of the third quarter that I've never seen this high before. I would tell you they remain very, very robust as we enter Q1 in 2026.

Trane Technologies plc

Q4 2025 Earnings

Julian Mitchell^ That's helpful. Then just my second question on U.S. resi HVAC. Maybe help us understand the confidence in that leaning out of inventory having largely already happened. And any update you could give on pricing in that market. We keep being fed anecdotes from people every day about discounting. We didn't seem to hear that from an OEM peer yesterday just wondered your perspectives on that, please.

David Regnery^ Yes. I'll let Chris talk to the pricing side of it. But on the inventory side, look, we were very, very intentional in the fourth quarter to get the inventory right. You heard in our prepared remarks, we took a third of the production days out. So we knew that was going to cost us on the bottom line as we deleveraged over 60% in that particular business. But we also believe that we have inventory size right as we enter 2026. So 2025 is behind us, we're looking forward and see how the year plays out. And remember, for the full year, we believe that resi will be flat to down up to 5%. We'll see how the year plays out. But we believe that inventory is in the position we want it to be, and we were very, very intentional in getting there.

Chris, do you want to talk about pricing?

Christopher Kuehn^ Julian, we've not seen pricing fade in the business. If I think about the fourth quarter and pricing is really more due to volume being lower than anything else. So certainly, great products, good industry and wouldn't add anything more than that.

David Regnery^ Yes. The only other thing I would add, Julian, is remember, Q1 has got some really tough. So even though inventory is in a right-sized position. We still are going to have some very difficult comps with last year being up in the high teens.

Operator^ Our next question will come from the line of Scott Davis with Melius Research.

Scott Davis^ It's been a good quarter so far for -- or today I guess I should say has been pretty good. You guys -- I mean these orders in applied are a nice surprise. And my question just is really about whether orders are broadening out amongst your end markets, like office, education, et cetera? Or are they narrowing and more of that more of that incremental order strength is, in fact, data center?

Trane Technologies plc

Q4 2025 Earnings

David Regnery^ Yes. I mean look, data centers are very strong, okay? But I would also tell you that if you look across the 14 verticals that we track, at least in the Americas, we had broad-based growth which was very, very encouraging. I think we had 12 or 14 verticals up. So that's encouraging for us. And -- so yes, but don't misinterpret my comments. Data centers were very strong, and they'll continue to be strong well into the future. But it is broad-based growth across the majority of our verticals that we track in commercial HVAC. Scott Davis And comparably broad, you would say Dave, versus maybe a year ago?

David Regnery^ I have to -- I mean I -- it's hard to say. I think we saw growth in some verticals that maybe a year ago, I was saying were weak like retail. We saw growth in retail. Office is coming back for us. So look, I'm bullish, Sean. And the order rate is one thing. But if I look at where the pipeline is, it's also very broad-based which is very encouraging for the future.

Scott Davis^ Makes sense. Okay. I'll keep it at that.

Operator^ Our next question comes from the line of Chris Snyder with Morgan Stanley.

Christopher Snyder^ I also wanted to ask about the applied orders, second straight quarter up over 100%. As we've seen this ramp in orders into the back half of the year, has there been an impact at all from changes in customer lead times? Are we starting to see customers order maybe with longer lead times again? There's some concerns out there in certain spots around supply chain pinpoint. Just wondering if that's having any impact on these -- just the massive orders we're seeing?

David Regnery^ Chris, this is Dave. But I would say we haven't seen that. I mean you have some verticals that will give you more of a longer view versus others. But for the most part, I haven't seen any change occurring there probably since really probably at least the last, I'll say at least 12 months, there hasn't been a dramatic change there on lead times. We're very competitive on our lead times. I told you that in the third quarter. We actually introduced a couple of quick ship programs so that sometimes you could have an emergency or you could have a contract or I forgot to order a piece of equipment, we're able to provide that now with some of our quick ship programs.

Christopher Snyder^ I appreciate that color. Maybe if I could follow up on data center, but specifically on the service side. As that the architecture there continues to change, obviously very rapidly. Are the attachment rates in that business better than they were,

Trane Technologies plc

Q4 2025 Earnings

say five or seven years ago as they maybe more so relying on you guys to do a lot of that service? Just given how fast things are changing relative to a decade ago?

David Regnery^ Yes. I think for sure, okay. Obviously hyperscalers or colos, they want the OEM to be doing the service work, okay? I think what's changing is the size of these data center fields or farms as they referred to, are quite large. So we're seeing more dedicated resources to a particular data center. But I would say for sure, if you go back, like, say a decade ago, I don't think our attachment rate was nearly what it is today. In fact, I'd be hard-pressed to think where we've done a major chiller farm where we haven't had the service agreements.

Operator^ Our next question will come from the line of Andy Kaplowitz with Citigroup.

Andrew Kaplowitz^ Dave and Chris, you had some margin pressure in Q4 in Americas and Europe. You explained it well. A lot of it was resi deleveraging in Americas and European investment. But maybe you could talk about how to think about segment incrementals in the context of your normal expected 25%-plus. Does European margins start to turn down more positive in '26 given its backlog? And how should we think about your overall price/cost dynamics given recently higher commodity costs?

Christopher Kuehn^ Andy, on the 25% or better incrementals for 2026, you know us well that's certainly where we like to start the year, and it gives us a lot of flexibility to make investments. We view each one of our segments, so the Americas, EMEA and Asia, all to be delivering 25% or better organic incrementals in 2026. Reported incrementals, they'll have about a 700 basis points lower impact than organic, and that's really just the result of M&A coming into the year at a starting point of lower margins which gives us a great opportunity to grow those margins over time.

So 25% plus across each of the segments for the year. I think about price cost in the guide of the 6% to 7% organic, think of pricing is around 1.5 points for the year. We've had a very proven and strong track record of staying ahead of inflation. It's our current view around inflation and tariffs today. And at the same time we have to remain very nimble and dynamic given input costs. So confident that, that 1.5 points of price would be in a position to drive the 20 to 30 basis points of margin growth as we go into any year, thinking about price versus inflation, but will remain dynamic.

Andrew Kaplowitz^ Helpful, Chris. Then Dave, maybe you could talk a little more about your positioning in the data center market. I think the Stellar acquisition is going to help

Trane Technologies plc

Q4 2025 Earnings

you a lot. But how is Trane adapting in thermal management as it adapts to maybe a little more liquid cooling? Then obviously there were some comments a few weeks ago from one of your data center partners. So you could opine on their comments, water chillers versus air chillers and so on.

David Regnery^ Yes. Well thanks for the question, Andy. Look, at the end of the day we've been very strong in the data center vertical for decades, and we're going to be very strong in the future. The short answer to your question is, we see chillers in the data center vertical well into the future.

But let me take a step back. Look, we're working very closely with many influencers in the data center vertical. So think of hyperscalers, think of chip manufacturers like NVIDIA and others, okay? And we're helping them design data centers of the future or you may have heard them refer to as reference designed data centers. Think of these data centers as the data centers that will be built maybe two to four years out. When we're sitting with these customers, we're bringing our expertise around the thermal management system to the discussions. And I have not seen a reference design or data center of the future that does not include chillers, just to be very clear.

Now I think that when we talk about some of these future designs, you're going to see a lot of innovation around the thermal management system, specifically around the chiller that is really exciting. I won't talk about in too much detail here for obvious reasons. But this is -- I mean this is fun.

I mean when you sit out in these rooms and our engineers are very detailed on this, but it's just you get really creative ideas. We have a lot of these new innovations in the pipeline. Some of them are actually still being in the modeling stage because they're so futuristic in thought process. But I want everyone to realize that Trane Technologies is at the forefront of this innovation, and we're helping our customers think through what's possible.

I'll conclude with we've been very strong in the data center vertical for decades, and we're going to continue to be very, very strong well into the future.

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

Amit Mehrotra^ Dave, I just wanted to follow up on that point because I don't think people are debating whether a chiller will be in a data center in the future. I think the

Trane Technologies plc

Q4 2025 Earnings

question really is about how much you need to run it and do run times get affected and do you need as many of them? And so I appreciate if you can just address that point, particularly also how Trane is positioned in an environment where chillers run less or needed less. Because on one side, you're working with NVIDIA to create this reference design. The other side, one of the main value products you saw in that market, you could just need less of them or run less. I mean I don't know if you disagree with that, but I'd love your perspective on it.

David Regnery^ Well I do. I mean I think first of all, I mean think about a data center farm in the future, think about free cooling being built in to the data center, okay? So you'll have make up another 100 chillers, they'll have free cooling capability. To run free cooling, you'll obviously be running the fans. We could debate how often you're going to run the compressor side of the thermal management system there. But you will definitely be running the fans through the free cooling cycle. How you manage that is going to be very important in the future.

I'm trying to be sensitive here to some of the innovation that you're going to see coming in the future. But chillers are mechanical systems. They are not a lot different than maybe your car. So you don't leave your car in the garage for six months and don't run it because if you did, you may not be very happy when you go out to try to start it up. So these systems do need to run at some point and so we're working through that equation.

The other side of it is, do you need more or less. I think at the end of the day you have a thermal load that you have to be able to size for the size of the data center. So the answer is you're still going to have the same number the frequency of which the compressor side runs will be -- it will vary but -- which could impact the services side as to how often you service these pieces of equipment. To be fair, we're still modeling that based on different innovations that are coming in the future.

Amit Mehrotra^ Got it. Okay. That's helpful. Then just maybe more tactically, Chris. The organic growth target is 6.5%. Obviously it's an acceleration in '25 but not as much of an acceleration. Is that maybe I would have expected given resi is kind of flattish to down. You've got probably applied equipment and services, maintaining not accelerating growth, just given the strength of the orders. Is that a fair assumption? I know you guys like to be conservative out of the gate and give yourself cushion, especially given the uncertainty of last year and what happened, but maybe you'd push back to me thing, it's not actually that conservative based on some puts and takes that you think of?

Trane Technologies plc

Q4 2025 Earnings

Christopher Kuehn^ Yes. I mean Amit, we like to set guidance where we can meet it or exceed it. So that's where we're starting here in January with a lot of flexibility to react to conditions that may present themselves. We don't know today. The guidance range on the 6% to 7% on the full year organic, it's got Americas Commercially HVAC up about 10%.

And again, we think that's a very strong growth for that business. And maybe a derisked outlook when you think about residential, we described it as flat to down 5%. Transport markets and residential markets trough in the first half and then much easier comps in the second half of the year. But Transport, we're expecting to be flat to down low single digits with markets down in the high single digits will outperform.

So I think it's a reasonable start to the year. We have a lot of confidence in delivering on the results like we would any time here in January. When you think about transport and residential, they're making up around 25%, 30% of the portfolio that we're not baking in much growth for on a full year basis. So we expect that they will improve in the second half on easier comps. We've got great teams and innovations. We keep leaning into both of those portfolios, and we'll see how the year kind of plays out, but we have a lot of confidence in the guide that we just put out today.

Operator^ Our next question comes from the line of Andrew Obin with Bank of America.

Andrew Obin^ Just a question on residential in the first quarter. I think the scope of sort of under absorption in the fourth quarter was a little bit surprising to us. At the same time you commented that residential market was better in the fourth quarter. How should we think about under absorption relative to sort of normal operating leverage in Americas in Q1 of '26?

David Regnery^ I'll let Chris talk about the unobserved, but let me just clarify a few things. I'm not sure the market was a lot stronger in the fourth quarter. I think we were stronger in the fourth quarter on resi. I would also tell you, Andrew, that we were very, very intentional in taking these days out. So it's not -- it wasn't necessarily a surprise to us to deleverage. We kind of had that baked into our models. But we wanted to get this behind us, and we believe it's behind us now. So I don't know Chris, do you want to talk about Q1 leverage.

Trane Technologies plc

Q4 2025 Earnings

Christopher Kuehn^ Sure. We've got residential in our guide in the first quarter, down about 20%. Reminder, the business was up in the high teens in the first quarter of last year, and that drove strong volume growth. For Q1, look, we're still very much in a shoulder season for residential. We'd expect the deleverage in the first quarter to be better than the deleverage we saw in the fourth quarter.

To Dave's point, we intentionally took production days out and that had the strongest impact on roughly 60% deleverage in the fourth quarter. So think about the first quarter, residential deleveraging within gross margins. We've got level-loaded production assumptions through the first quarter. We've got inventory we believe, at the right level in the channel. Then let's see how the year kind of plays out. But I think we really tried to, as one person noted, take the medicine in the fourth quarter as best we could and then set ourselves up well for 2026.

Andrew Obin^ And just -- I know there's a lot of focus on data centers at a vertical, but at the same time there are a lot of announcement about biopharma reshoring. And clearly, one of your key verticals, can you tell us what it is you are seeing in terms of biopharma reshoring? How real it is? How excited should we get about it into '26? And how much visibility do you have from your customers into '26 and '27?

David Regnery^ It's a great question, Andrew. I mean -- I said earlier that we had 12 or 14 verticals that were positive. One of the verticals that was not positive was life science, okay? So -- but if I look at the pipeline of activity, yes, we see some of those large pharma projects that are set for reshoring, I said, in the pipeline. We're optimistic, but we'll see how they play out. But we are all over tracking some of those large projects that are in this classification of mega projects. But we're hopeful that some of those actually come to reality here in the near term.

Christopher Kuehn^ Andrew, I'll add on the \$7.8 billion of backlog that we finished 2025 with, there's a bit over \$1 billion of backlog that's for 2027 and beyond. That's up more than 30% versus a year ago, and it reflects multiple verticals, let me be clear. But again entering 2026 with a stronger backlog than '25 and certainly building backlog already for '27 and beyond.

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

Thomas Moll^ Dave, I want to start by going back to the commentary from NVIDIA that you've elaborated on a bit today. If you think about the HVAC content and the data

Trane Technologies plc

Q4 2025 Earnings

center. So whatever fraction of every dollar spent on a data center today that you would attribute to HVAC? Then you think about the 2 to 4-year roadmap where you're in discussions already. When we're two to four years out, do you think that fraction is higher, lower, about the same as today?

David Regnery[^] Yes. I'm going to on the side of saying it's probably about the same, okay? You got to look at the whole thermal management system, and that's one of the advantages that we bring to these conversations as we do look at the whole thermal management system. I think the amount of power that is being consumed by the thermal management system may be less, okay? So think of it as a trade-off between you will still need the thermal management system, how often it runs or the power that it consumes may be less. Therefore you'll have the opportunity to do more computing within the data center, right, if that makes sense. So those are the conversations that are happening where -- how do we redirect some of the power over to the computing side versus running the thermal management system.

Thomas Moll[^] That's very helpful, Dave. I also wanted to ask a follow-up on resi pricing. Chris, I think earlier you said you have not seen it fade. I'm curious as you dialed in your outlook for sales this year flat to down 5%. Does that assume some incremental price realization in '26? And if the answer there is yes, do you feel like you're pricing plus/minus in line with other major players in the market there?

Christopher Kuehn[^] Tommy, I don't want to get in front of our residential team in terms of their plans for pricing. So I won't comment specifically there. But the flat to down 5% residential for the full year on a dollar basis. It assumes some level of price, whether it be new price increases or any carryovers from last year. Then we'll see how the year plays out. It's rough estimates at this point in time. It's probably a modestly lower year to flat on pricing. We'll see how that plays out.

Operator[^] Our next question will come from the line of Noah Kaye with Oppenheimer.

Noah Kaye[^] I'd like to pick up on the broad Commercial HVAC strength. In the past, I think the split of orders backlog is maybe skewed a little bit more towards retrofit. We're seeing some new construction indicators picking up. So how should we think about new build versus retrofit split as relative drivers of the '26 outlook? And to what extent, if any, the back half acceleration ties into new construction?

Trane Technologies plc

Q4 2025 Earnings

David Regnery^ Yes. I mean I think you need to look at it by vertical, Noah. So certainly, in the data center vertical, there's a lot of new construction almost all. But then when you get back into some of the other core verticals, it's very similar to what we've seen in the past. It makes a lot of sense, right? I mean I always tell people look out your window and how many buildings do you see versus how many cranes do you see. You'll realize that the majority of our business is focused on the honey retrofit versus new construction. But really -- you got to really -- your question is a great one. Just look at it by different verticals and you may get a different answer, okay?

Noah Kaye^ Yes. Very fair. I want to ask you about Stellar Energy. I guess just how much overlap is there in the customer base today? And maybe can you talk a little bit about kind of key points of differentiation around what this adds to your capabilities?

David Regnery^ Yes. I mean look, I think -- sure, there's some overlap. But at the end of the day think of Stellar Energy as being able to build modular chiller plants. I mean -- so just -- and then these modular chiller plants get assembled on a job site like LEGOs. So you're reducing the amount of skilled labor required on the job site, you're moving that back to the factory. You're testing these systems in a different way in a factory versus what you would do at a job site. So again, that's a benefit as well.

Look, they're predominantly right now in the data center vertical, but we see a lot of opportunities for this modular concept in core verticals as well. I think we're all aware of the skilled labor shortages and potential -- and the potential that, that has to slow projects up, where modular designs are going to become -- they're very attractive today but I think they're going to become even more attractive in other verticals than just the data center vertical.

Noah Kaye^ Yes. That cross-sell is an opportunity for you.

Christopher Kuehn^ Regina, before you go to the next speaker, let me just clarify a plan. I don't want to confuse anybody. Resi down up to 5% in 2026. It's really driven by volumes. We'll see where pricing ultimately falls out. I don't want anyone to think that pricing is coming down in that market. The impact may be less than what we saw in 2025 with significant pricing, but we'll see. But it's really, really volumes coming down that makes up that. I don't want to intimate that we know pricing is coming down. Thank you.

Trane Technologies plc

Q4 2025 Earnings

Operator^ And our next question will come from the line of Jeff Hammond with KeyBanc Capital Markets.

Jeffrey Hammond^ Maybe just -- we talked a lot about Applied, just touched on commercial unitary orders, trends and how you see that shaping up in '26?

David Regnery^ Yes. I mean it's a great question. Look, if I go back and look at 2025, Applied was extremely strong. But unitary was positive, slightly. I guess if I look forward to 2026, look, we have a kind of model right now as flattish for 2025. We'll see how that is out as the year progresses. But -- and again it really depends on different growth rates that we're going to see in different verticals because some are more apt to have unitary product for Applied systems. But right now to answer your question, we're looking at it to be flattish in 2026.

Jeffrey Hammond^ Okay. Great. Then just looking at your CapEx, I think you're guiding 1% to 2% of sales. You've kind of been in that 1.5% to 2% range. But just -- talk to me about what you've been doing behind the scenes to really ramp your capacity in the Applied business, just given the strength? And what you need to do going forward, given all that pipeline in terms of capacity expansion for Applied? And maybe just touch on your ability to kind of continue to ramp on the labor side for the service business as well.

David Regnery^ Let me start, and I'll let Chris talk more about the actual dollars being spent. But look, when we think of capacity. We really break it down into three different areas, okay? One is our 4-wall capacity. That's in our factories itself. And that's what we control. I would tell you that we've been ramping there for a long time and I think I told you in the third quarter call that our chiller capacity over the last two or three years is up over 4x, okay? So we've done a nice job there. Some of that's new builds. Some of that is just leaning out. Some of that is putting in lines and reducing inventory to create space. So there's a lot of goodness that's there, and I'm very comfortable with our capacity in that space.

The other area we look at capacity is on our supply chain. It's their ability could hinder us if we're not careful. So we spend a lot of time working with our supply chain partners on their capacity. And making sure that they understand what our demands are going to be in the future, understand they know kind of like the robustness that we see in our pipelines so that they can anticipate as well. So that's another bucket that we look at. And we're in good shape there. I think there's always opportunities to improve, and our

Trane Technologies plc

Q4 2025 Earnings

team is doing a great job of making sure that we have enough capacity there as our future needs will dictate.

The third area that we look at is within our Service business. There, really, it's about being able to not only do the service on this equipment, but commission the equipment. So Applied systems, we commission, right? So we go out to the -- our own employees are out there before the mechanical contractor starts these systems up. We're out there making sure that everything is perfect before we start them up.

Then we make sure that the system is operating the way it was designed before it gets turned over to the customer. To be fair, we have over 7,500 technicians now on a global basis. So I feel very comfortable in our ability there to make sure that all these applied orders that we've been receiving. We're not only to be able to manufacture, but we're also going to be able to make sure that we can commission on the job sites.

So Chris, I don't know if you want to talk about the actual capital dollars.

Christopher Kuehn^ Yes. I mean we remain CapEx-light in terms of intensity. You're right, Jeff. 1.5% to 2% has been the CapEx spend to revenues over the last few years, and it's been able to support all the capacity expansions we needed to do. I would add though, M&A has been a great option for us as well as we brought in businesses on air handling or industrial process cooling capacity for data centers, the M&A brings capacity as well into our four walls and then it gives us a lot of optionality as to how we want that production facility to operate what products will it run and what can we expand into that as well. So it's organic and also some inorganic opportunities, we've been able to expand capacity.

Operator^ Our next question will come from the line of Joe Ritchie with Goldman Sachs.

Joseph Ritchie^ So look, for all -- for good reason, there's always a focus on the U.S. data center market. You take a look at your Commercial HVAC bookings though in EMEA, up mid-teens and some expectations that you could actually see some really robust growth in the data center market in EMEA. I'm just wondering whether you're starting to see any of that already? Then how are you positioned geographically if things were to really accelerate?

Trane Technologies plc

Q4 2025 Earnings

David Regnery^ Yes. I mean absolutely, we see data centers really on a global basis, Joe. So it's not just in the Americas. I will tell you that the size of the data centers is dramatically different in Europe than it is here in the States. You could almost -- I mean the data centers that are being built in Europe are probably about 1/10 the size of what's being built, the majority of what's being built now or what's being certainly planned to be built here in the states.

So I am hearing from some that they're going to be making much larger data centers in Europe, but we'll see how that plays out. But if it does, we're very well positioned. I mean we have incredible portfolio of products, really on a global basis. There are nuances that you will see in the product portfolio for preferences and data centers as you start to move around the world. And my comments on Europe, you could replicate them into Asia as well because it's, again a very similar -- Asia is actually more similar to what we're seeing in Europe right now.

Joseph Ritchie^ Got it. That's helpful. Then I guess maybe then just double clicking on those orders. You mentioned your priority verticals in the Americas, most of them are seeing broad-based growth. Where are you seeing kind of like the real growth in the EMEA side of the business?

David Regnery^ Yes. I mean it's less -- we have less data there on the different verticals, but I would say it's, again broad-based. We certainly see it in data centers. We certainly saw it in Commercial as well Commercial Office that is which is -- it's a focus area. We also see nice growth in Europe, as you would expect, in our Services business. It's very -- it's as broad-based as you would have in the Americas.

We just have less granularity on the verticals and kind of like have a reporting mechanism on those verticals. But -- if you ever come visit us in Europe, I think you'll see us being able to play across all the verticals. And again the direct sales force really allows us to pivot to where the opportunities are, and that's really on a global basis as well.

Operator^ Our next question will come from the line of Jeff Sprague with Vertical Research Partners.

Jeffrey Sprague^ Good looking numbers here, guys. Congrats. I wonder if we could talk a little bit more about price cost. Chris, you gave some color there. But I was just kind of curious if you could kind of level set us on kind of what you absorbed on tariffs in 2025,

Trane Technologies plc

Q4 2025 Earnings

what the wraparound might be? Then also just this pretty dramatic metal spike we are seeing. Gold is getting all the attention, but copper and other things have moved a lot. Just how dynamic might your pricing have to be here as we progress through 2026?

Christopher Kuehn^ Well I'm hoping it's less dynamic than what it had to be in 2025, Jeff. But -- that's the power of the business operating system and the models we have to take into account all of the costs that we can see. But your specific question, just given time on tariffs, we described it about a bit higher than \$140 million of tariff cost in 2025 on our last call. We're in that range for what that cost was in 2025 for the full year. Think about that wrapping into 2026. We really have three quarters of that tariff cost in '25. Now you've got four quarters of that.

So we expect it to be inflationary from a tariff perspective, maybe in that \$50-ish million range in the ballpark. All in, maybe it's \$200-ish million of costs that we'll make sure we price accordingly for. But the first step we do is we make sure we mitigate the tariff costs. So the numbers I'm quoting you are after mitigations. So we're continuing to work with suppliers on the short term to the long term to ultimately mitigate the costs and/or move source of supply to really not make this an area where we have to price. If we do, we're not trying to make it a profit center.

On commodities, we've had a program for well over a decade in terms of how we hedge. Think of copper and aluminum in 2026. Now about half of our needs are hedged at this point. So we'll continue to layer on hedges as we move throughout the year as we normally would. But we'll remain dynamic in terms of pricing as we see those commodities move. On steel, we have about a 6-month lock in terms of pricing. So any pricing moves there impact us beyond six months. But I think a proven track record to stay ahead of inflation and make sure that we've got a positive on the dollars and the margins for price cost.

Operator^ Our next question will come from the line of Nigel Coe with Wolfe Research.

Nigel Coe^ So you said some very interesting comments. Well first of all, I want to say well done on taking the inventory down. That's not easy, but set you up well for 2026, so well done there. Going back to the comments you made on the Services intensity for chillers and data centers. I just want to make sure I understand that correctly because obviously these aren't running 24/7, depending on the amid temperature. But just could you just remind us how the service tail on Applied Systems typically looks versus upfront

Trane Technologies plc

Q4 2025 Earnings

cost? And is that materially different for data centers, that would be an interesting comment.

David Regnery^ Yes. Actually, it's a great question. I think I can tell you right now we think of it at the [8 to 10], you've heard us say that number before in an Applied System, at least on a thermal management Applied System. In data centers, look, to be honest with you, it's probably going to be a bit lower, and some of that we're still modeling. There's a couple of reasons for that, right? One is we could all sit there and speculate what the what the life expectancy is of a thermal management system in a data center.

I know what it will run from a mechanical standpoint, and that doesn't change. But because of the efficiencies that you're going to see in the -- if you just follow the track of innovations and how we've been able to improve efficiency over the last five years, if you roll that forward to the next five years, you may start to see some of these chillers have different lives other than the data center because you switch them out to be able to get power to divert back into the computing side of the equation versus into the thermal management side.

So those are some of the variables that are kind of unknown right now. But the question that came in that I would try to answer was, "Hi, if a chiller runs less, do you have the same service on it?" And the reality of it is in a data center, think of it as a chiller -- the fan side or the air side of the chiller is going to run as it does today. The compressing side of the chiller may run less, but it still has to run. If you don't run it, you're going to end up with problems.

So those are kind of the balances that we're working through. So it's pretty dynamic. And -- we don't have it 100% dialed in, but I would tell you, we have a lot of people that are modeling that so we can understand it. But don't -- there's a couple of things that are going to be the same, right? Response time being on the job site, making sure that you have uptime. All that is going to be the same. Connected solutions is all going to be the same. So we'll still have a big robust Service business as well.

Nigel Coe^ Yes. Then just one more crack at the resi pricing, just given the inflation wave that's coming through in that business. And maybe, Chris, it doesn't sound like you want to put a pin on sort of the pricing. I just wondered, is that because the demand environment is to fluids, the raw material inflation impact is to fluids. I mean any sense on why you kind of -- I don't know if the mystery of pricing here, but just wondering what's kind of like driving our thinking around pricing?

Trane Technologies plc

Q4 2025 Earnings

Christopher Kuehn^ Well I'll start with our team hasn't announced a price increase yet for -- I'd say that we've got expectations for the year, but we'll continue to remain dynamic. I don't want to signal anything in advance, but we have a lot of confidence in the team that they're going to manage well throughout the year, okay?

Operator^ Our final question will come from the line of Steve Tusa with JPMorgan.

Stephen Tusa^ Glad you clarify that resi pricing comment because few messages came in immediately when you said down. So obviously some sensitivity around that. But just the Commercial HVAC side, can you help reconcile the -- like 100% plus applied orders and the 35% total orders like what was down to kind of get it to that rate? Or is it Applied just a smaller piece of that pie?

Christopher Kuehn^ We saw growth in orders in both Applied and unitary here in the fourth quarter. Unitary closer to that low single-digit kind of range, but it was positive. I guess I'd leave it there. I mean it's pretty broad brushed in terms of the verticals where we saw growth. Dave described the 12 to 14 -- 12 of the 14 verticals.

Stephen Tusa^ Well I mean I guess if there is 50-50 simplistically, wouldn't that be a lot higher of a total order number? Or is the -- am I -- is there services maybe in there or something?

Christopher Kuehn^ Yes. Those services that certainly would be part of that conversation as well in terms of order growth. We'd have to get back to you with the answer. Yes. We can do the math on -- but you're also sit on comps with the prior year comps as well. We have to look at that, too.

Stephen Tusa^ Okay. Then just thinking about this kind of trajectory, obviously very strong orders, strong backlog. In the first quarter, you're starting at like 7% to 8% exiting the year at a higher rate. Obviously these orders are very strong. Is there something outside of the core Applied business? And I guess what I'm getting at is, are there like a lot of like liquid cooling related orders that are now coming through and pushing that number higher and driving the acceleration in the second half? I know you guys have come out with some big launches on that front. Is that moving the needle on some of this?

Trane Technologies plc

Q4 2025 Earnings

David Regnery^ Well I think we're mixing orders versus revenue. So the revenue is more a function that we're going to see in the back half of the orders that we've already booked, Steve. So think of it as -- if our last six months in Commercial HVAC in the Americas, our orders are up over 30%, and you just start adding nine months almost on average to each of those to understand when it's going to ship out. And Europe is very similar, as I said, that was up the high teens level. So all that backlog is going to come up.

To your question on are we seeing robust demand for other elements of the thermal management system, absolutely certainly in our pipeline. And as you can imagine, we're all over it, and the teams are just doing a great job there on the innovation side as well as on the front end talking to customers as to what we have in our portfolio.

Stephen Tusa^ Okay. Then one last one, Chris, can you just remind us what the standing kind of Tier 1, Tier two kind of raws bases, so we can just kind of like door on math on that inflation dynamic this year?

Christopher Kuehn^ Yes, Tier one is still around \$750 million and then the Tier two is around \$5.5 billion to \$6 billion in terms of size.

Operator^ And that will conclude our question-and-answer session. I'll turn the conference back over to Zac Nagle for any closing remarks.

Zac Nagle^ Thanks, everyone, for joining today's call. As always, we'll be around to take any questions that you may have today or in the coming days. We'll be on the road at a couple of conferences here in February and then into the rest of the quarter. So we look forward to seeing many of you on the road. Thanks very much. Bye.

Operator^ This concludes our call for today. Thank you all for joining. You may now disconnect.