

## Carrier Global Corp.

## Industrial Fire divestiture, better headline, proceeds in line with our forecasts

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 56.73 USD

## Industrial Fire sale another solid multiple

On 3/5, Carrier announced a definitive agreement to sell its Industrial Fire business for \$1.425bn enterprise value to Sentinel Capital Partners. Carrier expects after-tax net proceeds to exceed \$1.1bn. We had previously estimated ([see our 12/19/23 report](#)) that Industrial Fire would sell for \$1.2bn assuming a 12x EV/EBITDA multiple on estimated 2023 EBITDA of \$100mn. Announced proceeds are broadly in line with our forecast despite better headline on more tax leakage. Carrier did not disclose the purchase EV/EBITDA multiple, unlike previously Security and Commercial Refrigeration divestitures. All in, Carrier is well on its way to deliver on the CEO's promise of divestiture multiples matching/exceeding that of Chubb, something that we and street were skeptical of at the time of the initial announcement. We maintain our Underperform rating on Carrier given concerns about European heat pump demand and the US light commercial HVAC market.

## Implied multiple in line with our prior expectations

On the 9/26/23 update call CEO David Gitlin said, "Between Security and Industrial Fire, you are looking at a bit over \$400mn in EBITDA." The \$4.95bn sale price and 17x announced multiple for Security implies \$291mn in 2023 EBITDA. This suggests \$110-120mn in 2023 EBITDA for Industrial Fire, or a ~12x multiple. Carrier anticipates the deal closing in 3Q24. Carrier will use proceeds for debt repayment following the 1/2/24 acquisition of Viessmann.

## Recap of Carrier's progress on divestitures

Industrial Fire is the third of four planned divestitures, following Security ([see our 12/8/23 report](#)) and Commercial Refrigeration (announced 12/13/23). Carrier has signed definitive agreements for Industrial Fire (we estimate ~12x 2023E EBITDA), Security (announced 17x 2023E EBITDA), and Commercial Refrigeration (announced 16.5x 2023E EBITDA). We estimate that the Refrigeration multiple was closer to 10x on 2022 EBITDA. We expect Carrier to spin-off Residential & Commercial Fire at an 8x EV/EBITDA multiple (but note the company is pursuing a sale process as well). Assuming a spin-off, we estimate Carrier would receive a cash dividend using proceeds from initial 3x net debt to EBITDA leverage on Residential & Commercial Fire.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.31	2.73	2.75	2.85	3.19
GAAP EPS	4.06	1.58	2.42	2.53	2.89
EPS Change (YoY)	1.8%	18.2%	0.7%	3.6%	11.9%
Consensus EPS (Bloomberg)			2.84	3.08	3.42
DPS	0.59	0.73	0.77	0.81	0
Valuation (Dec)					
P/E	24.6x	20.8x	20.6x	19.9x	17.8x
GAAP P/E	14.0x	35.9x	23.4x	22.4x	19.6x
Dividend Yield	1.0%	1.3%	1.4%	1.4%	0%
EV / EBITDA*	20.1x	17.9x	14.7x	14.8x	13.7x
Free Cash Flow Yield*	2.7%	4.2%	1.6%	4.1%	4.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

05 March 2024

## Equity

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## Stock Data

Price	56.73 USD
Price Objective	55.00 USD
Date Established	5-Oct-2023
Investment Opinion	B-3-7
52-Week Range	40.28 USD - 60.04 USD
Mkt Val (mn) / Shares Out (mn)	50,964 USD / 898.4
Free Float	93.2%
Average Daily Value (mn)	310.06 USD
BofA Ticker / Exchange	CARR / NYS
Bloomberg / Reuters	CARR US / CARR.N
ROE (2024E)	28.5%
Net Dbt to Eqty (Dec-2023A)	47.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

HVAC: heating, ventilation, and air conditioning

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Timestamp: 05 March 2024 11:49AM EST

# iQprofile<sup>SM</sup> Carrier Global Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.3%	11.0%	12.2%	13.2%	15.0%
Return on Equity	26.3%	27.3%	28.5%	29.6%	32.3%
Operating Margin	14.2%	14.5%	15.2%	15.3%	15.7%
Free Cash Flow	1,390	2,138	822	2,069	2,168

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.1x	0.5x	1.0x	0.9x
Asset Replacement Ratio	0.9x	0.9x	0.6x	0.6x	0.7x
Tax Rate	21.9%	20.5%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	65.9%	47.5%	124.7%	95.4%	97.3%
Interest Cover	10.6x	19.9x	7.3x	8.7x	10.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	20,421	22,098	26,024	24,233	25,706
% Change	-0.9%	8.2%	17.8%	-6.9%	6.1%
Gross Profit	5,577	6,657	7,890	7,419	7,947
% Change	-6.7%	19.4%	18.5%	-6.0%	7.1%
EBITDA	3,223	3,627	4,397	4,388	4,713
% Change	0.6%	12.5%	21.2%	-0.2%	7.4%
Net Interest & Other Income	(278)	(163)	(539)	(453)	(423)
<b>Net Income (Adjusted)</b>	<b>1,994</b>	<b>2,329</b>	<b>2,520</b>	<b>2,580</b>	<b>2,844</b>
<b>% Change</b>	<b>-1.5%</b>	<b>16.8%</b>	<b>8.2%</b>	<b>2.4%</b>	<b>10.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,994	2,329	2,520	2,580	2,844
Depreciation & Amortization	380	542	850	825	800
Change in Working Capital	(336)	616	(121)	(184)	(479)
Deferred Taxation Charge	(124)	(233)	0	0	0
Other Adjustments, Net	(171)	(647)	(1,887)	(649)	(464)
Capital Expenditure	(353)	(469)	(540)	(503)	(533)
<b>Free Cash Flow</b>	<b>1,390</b>	<b>2,138</b>	<b>822</b>	<b>2,069</b>	<b>2,168</b>
<b>% Change</b>	<b>-26.6%</b>	<b>53.8%</b>	<b>-61.6%</b>	<b>151.7%</b>	<b>4.8%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(509)	(620)	(705)	(734)	(757)
Change in Debt	(983)	5,483	(2,068)	(1,788)	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,520	10,015	1,399	2,081	1,854
Trade Receivables	2,833	2,481	2,850	2,787	3,097
Other Current Assets	3,526	6,284	7,318	6,828	7,258
Property, Plant & Equipment	2,241	2,293	4,195	3,329	3,262
Other Non-Current Assets	13,966	11,749	16,235	14,278	14,125
<b>Total Assets</b>	<b>26,086</b>	<b>32,822</b>	<b>31,997</b>	<b>29,303</b>	<b>29,597</b>
Short-Term Debt	140	51	0	0	0
Other Current Liabilities	5,892	6,840	8,122	7,385	7,646
Long-Term Debt	8,702	14,242	12,225	10,437	10,437
Other Non-Current Liabilities	3,276	2,684	2,969	2,718	2,689
<b>Total Liabilities</b>	<b>18,010</b>	<b>23,817</b>	<b>23,316</b>	<b>20,540</b>	<b>20,772</b>
<b>Total Equity</b>	<b>8,076</b>	<b>9,005</b>	<b>8,681</b>	<b>8,763</b>	<b>8,825</b>
<b>Total Equity &amp; Liabilities</b>	<b>26,086</b>	<b>32,822</b>	<b>31,997</b>	<b>29,303</b>	<b>29,597</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Industrials/Multi-Industry

## Company Description

Carrier is a global provider of HVAC, refrigeration, fire and security solutions. The company was previously part of UTC and was spun off as an independently traded company in April 2020 with the goal of having a more operationally focused enterprise with more capital allocation flexibility. The company is headquartered in Palm Beach Gardens, Florida and employs approximately 53,000 employees globally.

## Investment Rationale

Relative to peers, CARR has the highest exposure to North American residential HVAC. We see headwinds to residential HVAC including concerns around excess channel inventory. We also see potential headwinds for light commercial HVAC market into 1H24. We see increasingly negative datapoints on Europe's heat pump demand trends and are concerned about Europe's near-term heat pump demand within the context of Carrier's recent acquisition of Viessmann.

## Stock Data

Average Daily Volume 5,465,577

## Quarterly Earnings Estimates

	2023	2024
Q1	0.52A	0.49E
Q2	0.79A	0.86E
Q3	0.89A	0.90E
Q4	0.53A	0.51E

**Exhibit 1: Multiples for the announced & planned divestitures**

Announced divestiture agreements have net proceeds expected to exceed \$5.6bn

(\$mn)	EBITDA	Multiple	Enterprise Value	Net proceeds
Security	291	17.0x	4,950	~4,000
Commercial Refrigeration	47	16.5x	775	>500
Industrial Fire	119	12.0x	1,425	>1,100
Commercial & Residential Fire	200	8.0x	1,600	N/A
<b>Total</b>	<b>457</b>	<b>15.7x</b>	<b>7,150</b>	<b>&gt;5,600</b>

**Source:** Company filings, BofA Global Research estimates

Note: Net proceeds are "approximately" \$4bn for Security, "to exceed" \$500mn for Commercial Refrigeration, and "to exceed" \$1,100mn for Industrial Fire. Carrier is pursuing both a sale and spin-off process for Commercial & Residential Fire; we show estimated sale multiple.

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## Price objective basis & risk

### Carrier Global Corp. (CARR)

We base our \$55 price objective on 13x EV/EBITDA of our 2025 estimates. Our 13x target multiple is at a discount to peers, trading at 14x on 2024 estimates. We believe that the discount is warranted given the potential for destocking across res and non-res.

Upside risks to our price objective are: 1) continued solid execution in 2023, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

Downside risks to our price objective are: 1) slower-than-expected macro recovery, 2) inability to execute on announced cost savings plan, and 3) lost market share to competitors.

## Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

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### US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

## US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

**iQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Carrier (CARR) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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