

## Carrier Global Corp.

# Focus on '25 EPS, Viessmann growth in 2H24 key source of uncertainty

Reiterate Rating: UNDERPERFORM | PO: 55.00 USD | Price: 55.06 USD

## 4Q23 operational miss, EPS beat on low tax rate

Carrier's 4Q23 operating results missed expectations slightly. EPS came in ahead of our estimate and consensus on a more favorable tax rate. Overall operations were a \$0.03/sh miss. HVAC and Refrigeration both missed by \$0.01/sh. We reiterate our Underperform given concerns about European heat pump demand and the US resi and light commercial HVAC market into '24.

## '24 guide clears the bar – but details matter

The company's \$2.80 - \$2.90 EPS guidance for 2024 bracketed the Street's \$2.88 estimate. Based on our conversations with investors, guidance also cleared the buy-side's expectation of \$2.70 - \$2.80. The '24 EPS guide assumes a full year of Viessmann, industrial fire, resi & commercial fire and half a year of benefit from its Security and Commercial Refrigeration divestitures. We lower our '24 EPS estimate to \$2.75 from \$2.97 to reflect timing of divestitures, lower estimates for Viessmann, and a higher share count

## Viessmann starts on lower base; '24 assumes rev. growth

When Carrier originally announced the Viessmann acquisition on 26 April, it guided to €4bn in sales and €700mn in EBITDA for Viessmann in '23. '23 actual sales came at ~€3.9bn and EBITDA was ~€650mn. Carrier expects Viessmann's sales up mid-single digits in 2024. We are more cautious, given continuing negative headlines about European heat pumps, modeling a -5% decline (-15% for heat pumps). The '24 ~\$736mn EBITDA guide for Viessmann was broadly in line with Street expectations; we model \$688mn. The Viessmann guide assumes the company will return to solid growth in 2H with 55% of revenues generated in that period

## Focus shifts to '25 framework

Carrier views \$2.55 as its "core" earnings in '24. When asked about '25 management noted they would "be disappointed" if the company "could not continue to grow that [\$2.55] at double digits". Using \$2.55 as a base and the same 14% growth rate it is assuming for '24 EPS growth implies EPS of ~\$2.91 for '25. This compares to our updated forecast of \$2.85. We see downside to Carrier's 2H24 on heat pumps but less risk to '25 estimates given capital allocation optionality.

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)			2.86	3.10	3.43
DPS	0.59	0.73	0.77	0.81	0
Valuation (Dec)					
P/E	23.8x	20.2x	20.0x	19.3x	17.3x
GAAP P/E	13.6x	34.8x	22.8x	21.8x	19.1x
Dividend Yield	1.1%	1.3%	1.4%	1.5%	0%
EV / EBITDA*	19.6x	17.4x	14.4x	14.4x	13.4x
Free Cash Flow Yield*	2.8%	4.3%	1.7%	4.2%	4.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 13.

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Timestamp: 08 February 2024 07:10PM EST

08 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	27,110.7	26,024.0
2025E Rev (m)	27,164.3	24,232.7
2026E Rev (m)	28,936.6	25,705.8
2024E EPS	2.97	2.75
2025E EPS	3.22	2.85
2026E EPS	3.75	3.19
2024E DPS	0.84	0.77

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### Stock Data

Price	55.06 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)	49,464 USD / 898.4
Free Float	93.2%
Average Daily Value (mn)	203.43 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 <sup>TM</sup>	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

# 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 13.

## 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 3,694,760

## 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

## Viessmann – guide vs what is being seen

Viessmann '23 revenue came in at ~€3.9bn vs initial guidance of ~€4bn, still representing a healthy growth of ~15%. As of Viessmann's YTD sales were up 18% and heat pumps were up 35%. During the September business update when asked about outlook, Max Viessmann said "What's most important for our view is, A, the huge backlog that we have, that is significant. But the other part is that we have a long-term outlook that is, from our perspective, from what we expect to happen, very, very positive." However, on the 4Q call the company stated that "as we look at January, February, and then we do need to see that order book increase as we go into March heading into 2Q."

Carrier guides '24 Viessmann revenue up mid-single digits. The company noted the following assumptions by region: "France and Poland to be up double-digits, Germany probably in the mid-single-digit range, Italy will be down a bit". We are below the company's revenue guide, assuming Viessmann down 5% given our expectations for declining heat pump sales and PV (photovoltaics), Viessmann's solar business.

Guide assumes that heat pumps return to growth in 2H24. 1H will be impacted negatively by delayed European orders. 4Q orders for Viessmann "were lighter in the second half" impacting 4Q which "came in a little bit lower" than Carrier thought. Due to the lighter orders in 2H, Carrier expects 1Q sales for Viessmann to be flattish. We model 1Q down low-double digits due to weak market fundamentals and slight deviation from seasonality.

Based on previous disclosures resi heat pumps is ~17% of Viessmann's business, but overall heat pumps and accessories is ~40%. ~92% of Viessman's revenue is from Europe with ~45% from Germany. Considering Viessmann's exposure, down 4Q orders likely reflects weak market fundamentals.

Carrier expects Viessmann to have a slower start to the year and for revenue to be split 45% 1H and 55% in 2H, with earnings split ~40% in 1H vs 60% in 2H. We assume a split of 44% in 1H and 56% in 2H, reflecting slower recovery assumptions in 2H.

Applications for heat pump subsidies in Germany were down -12% in 4Q23. Applications rebounded in December to up 30% y/y. December's applications were more than 2x any month since Dec '22. However, actual sales in Germany were still down 40% y/y in December.

Negative headlines about heat pumps continued out of Europe at the beginning of '24. On 22 January the European Heat Pump Association and 18 other organizations called on the European Commissioner to publish the Heat pump Action Plan, which was originally set to be published in 1Q24 and was delayed until after EU elections. The coalition says not publishing the plan threatens Europe's energy transition. This sentiment was reinforced on 30 January when 60 heat pump industry chiefs warned that delaying the EU Heat Pump Action Plan could jeopardize a key net-zero European industry. Of the 60 heat pumps industry chiefs, Carrier's President of Residential & Light Commercial HVAC EMEA and Carrier's Vice President & General Manager of Commercial HVAC EMEA signed the letter. Daikin (covered by Kenjin Hotta) noted during its Dec-23 ended quarter earnings call on 2/6 that the European heat pump market may remain sluggish for the next couple years. Our colleague Kenjin estimates Daikin's European heat pump volumes were down 56% y/y in the Dec-23 ended quarter. This followed Daikin's announcement on 22 January that it was readjusting its European expectations down for '24 and cutting European production capacity. Earlier on 12 January Daikin announced a 15% price cut in the UK on air/water heat pumps.

Beyond HVAC, management said on the earnings call that Viessmann's Photovoltaic (PV) business "may slow a bit" in '24. PV is ~12% of Viessmann's business. The potential decline in PV comes on the heels of a court decision limiting German government support for domestic solar manufacturers. Originally, the program was anticipated to receive €2.5bn from the German government through its climate transformation fund.



However, the German Constitutional Court in November banned the transfer of €60bn unused pandemic emergency funds to the climate fund. We forecast PV down ~4% in '24.

For '24 we model Viessmann revenues down ~5% vs guide of up mid-single digit. Our Viessmann estimate is a factor of modeling negative y/y growth for PV and heat pumps. Based on regional forecasts for heat pumps sales in '24 weighted by Viessmann's geographic exposure, with partial offsets from services, we model heat pumps down 15% in '24. We give the company credit for its ancillary services, as our industry forecast by geography implies volumes down ~25%, reflecting particular weakness in the German market. For PV we model the segment down 4% because of the change in German subsidies and company guide of potential slowing. We assume boilers up 6% due to demand shifts from heat pumps to boilers due to cost difference and push out of heat pump demand due to legislative changes in Europe. We model digital services up 11%.

## Bridging '24 and '25 EPS

We bridge '23 EPS to our '24 and '25 EPS estimates in Exhibit 1. We consider the core remaining businesses for Carrier, the divestitures, the Viessmann acquisition, and other below-the-line items. For remaining business, Carrier will maintain HVAC (resi, light commercial, and applied), Refrigeration ex Commercial refrigeration, and UTEC Controls in the F&S (Fire & Security) segment. Our bridge in '25 includes the divestitures of industrial fire and resi & commercial fire as if each closed 12/31. We also assume Carrier will reinvest the proceeds to repay the financing for the Viessmann acquisition.

The Viessmann numbers in the bridge consider its sales and the impact of interest expense and share issuance related to the transaction. For '25, Viessmann is a net \$0.04 headwind, but it appears positive in the bridge because it is a y/y number.

### Exhibit 1: Bridging from '23 EPS to our estimates for '24 and '25

We estimate '24 EPS to be \$2.75 and '25 EPS to be \$2.85

	2024E	2025E
<b>Previous Year EPS</b>	<b>\$2.73</b>	<b>\$2.75</b>
Residential HVAC	\$0.13	\$0.09
Applied HVAC	\$0.10	\$0.14
Light Commercial HVAC	\$(0.01)	\$0.01
Core Refrigeration	\$0.02	\$0.02
Core Fire & Security	\$0.02	\$(0.00)
<b>Core Carrier</b>	<b>\$0.26</b>	<b>\$0.27</b>
Viessmann	\$(0.12)	\$0.07
Divestitures	\$(0.14)	\$(0.35)
<b>Portfolio changes</b>	<b>\$(0.26)</b>	<b>\$(0.28)</b>
Tax rate	\$(0.09)	\$0.00
Interest expense	\$0.10	\$0.05
Corporate & other	\$0.03	\$0.02
Share count	\$0.00	\$0.03
<b>Below-the-line</b>	<b>\$0.03</b>	<b>\$0.10</b>
<b>Total Adj. EPS</b>	<b>\$2.75</b>	<b>\$2.85</b>

Source: BofA Global Research estimates, company filings

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**Exhibit 2: Viessmann EPS accretion/ dilution analysis**

We estimate the net Impact of Viessmann to be \$0.12 dilutive in '24

	2024	2025	2026
Earnings	\$0.49	\$0.55	\$0.62
Interest expense	(\$0.41)	(\$0.39)	(\$0.37)
Share issuance	(\$0.20)	(\$0.20)	(\$0.23)
Net impact	<b>(\$0.12)</b>	<b>(\$0.04)</b>	<b>\$0.02</b>

Source: BofA Global Research estimates

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For '24 we model Viessmann revenues down ~5% vs guide of up mid-single digit. Our Viessmann estimate is a factor of modeling negative y/y growth for PV and heat pumps. Based on regional forecasts for heat pumps sales in '24 weighted by Viessmann's geographic exposure, with partial offsets from services, we model heat pumps down 15% in '24. We give the company credit for its ancillary services, as our industry forecast by geography implies volumes down ~25%, reflecting particular weakness in the German market For PV we model the segment down 4% because of the change in German subsidies and company guide of potential slowing. We assume boilers up 6% due to demand shifts from heat pumps to boilers due to cost difference and push out of heat pump demand due to legislative changes in Europe. We model digital services up 11%.

**Exhibit 3: Estimated Viessmann revenue (\$mn)**

We use Viessmann's 2022 revenues to estimate '23, '24, and '25 revenue breakouts

	2023	2024	1Q24	2Q24	3Q24	4Q24	2025	2026
Heat Pumps and Accessories	25.0%	-15.0%	-22.7%	-21.3%	-8.7%	-7.9%	8.0%	13.1%
Solar PV	10.0%	-4.0%	-12.7%	-11.1%	3.1%	4.0%	6.0%	7.3%
Boilers	5.7%	6.0%	-3.0%	-1.2%	14.6%	15.6%	-2.4%	-2.9%
Digital Services	10.0%	11.0%	0.9%	2.8%	19.2%	20.3%	10.5%	14.4%
Others	5.0%	7.0%	-2.7%	-0.9%	14.9%	15.9%	9.0%	9.4%
<b>Total</b>	<b>14.6%</b>	<b>-4.9%</b>	<b>-12.6%</b>	<b>-11.0%</b>	<b>3.2%</b>	<b>4.1%</b>	<b>4.9%</b>	<b>7.7%</b>

Source: BofA Global Research estimates

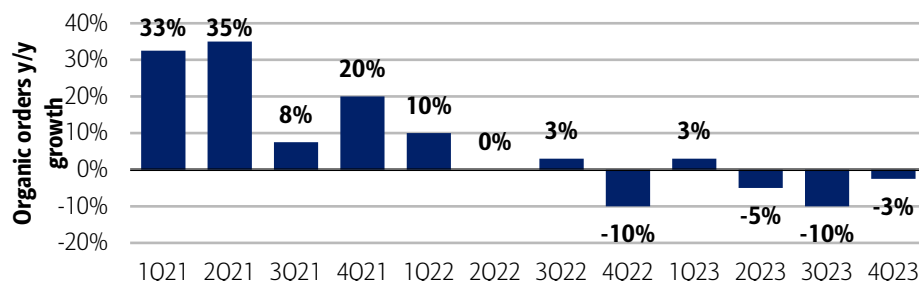
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## 4Q review: total organic orders improve sequentially

Total company organic orders declined 0% - (5)% y/y. This was driven by declines in Refrigeration orders.

**Exhibit 5: 4Q organic orders declined 2.5% y/y**

Total Carrier quarterly organic orders y/y growth



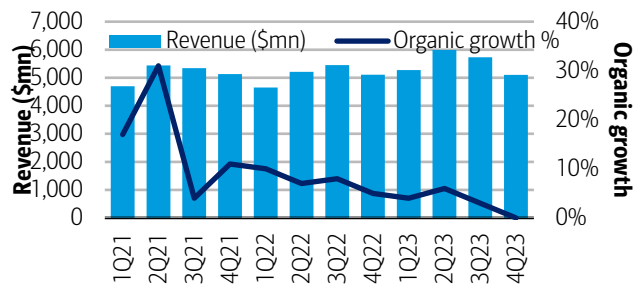
Source: Company filings

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Total Carrier organic sales were flat in the quarter. The company reported adjusted operating margin of 10.9%.

**Exhibit 5: Revenue and organic growth**

Total Carrier had flat organic growth in 4Q23

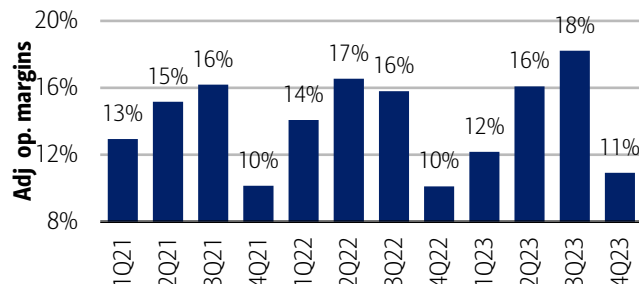


Source: Company filings

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**Exhibit 6: Adjusted operating margin**

4Q23 adj. operating margin of 10.9%



Source: Company filings

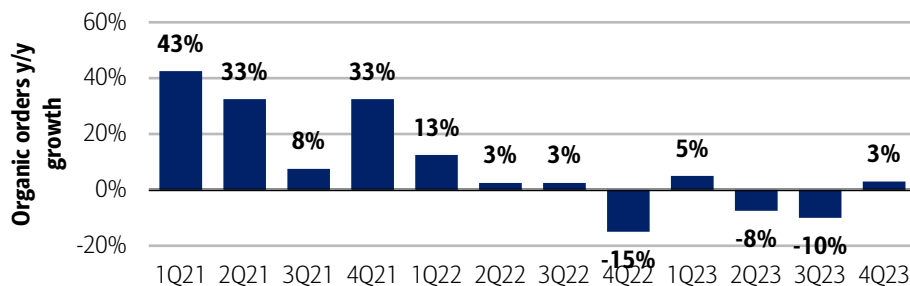
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**HVAC: resi and commercial order declines**

HVAC organic orders were up 0-5%, Commercial HVAC orders were up 5% y/y and resi & light commercial HVAC orders fell ~10% y/y. Residential HVAC orders were up mid-teens, offsetting light commercial orders down 40%.

**Exhibit 7: HVAC segment organic orders (y/y % change)**

HVAC organic orders were up 0-5% in 4Q23



Source: Company filings

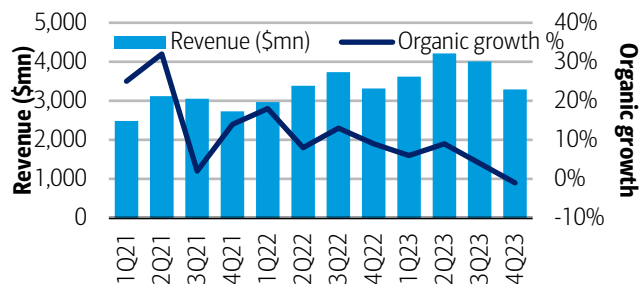
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HVAC organic revenue was down (1)% y/y.

- **Residential equipment** sales were down high-teens y/y.
- **Light commercial** sales grew over ~20% y/y.
- **Applied** revenue grew in the high-single digit range.

**Exhibit 8: HVAC segment revenue and organic growth**

HVAC segment revenue was down 1% on an organic basis in 4Q23

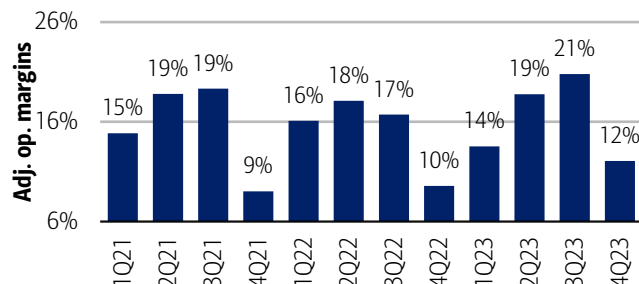


Source: Company filings

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**Exhibit 9: HVAC segment adj. operating margin**

4Q23 adj. operating margin was 12.1%



Source: Company filings

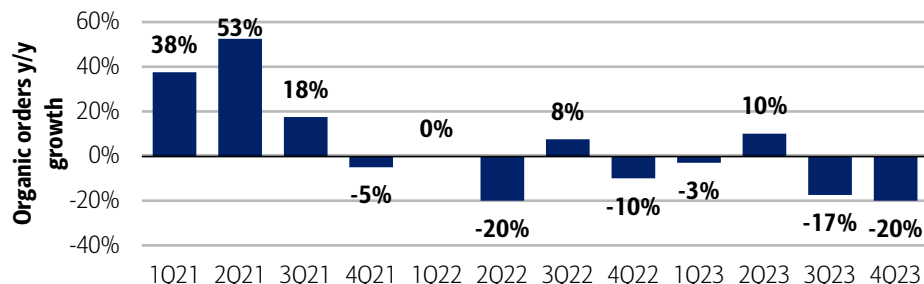
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## Refrigeration: orders declining y/y

Refrigeration orders were down 20% y/y at the mid-point. **Transport refrigeration** orders were down (30)% y/y. **Commercial refrigeration** orders were 0% - 5% y/y.

### Exhibit 10: Refrigeration segment organic orders (y/y %)

Refrigeration orders decreased 20% y/y in 4Q23



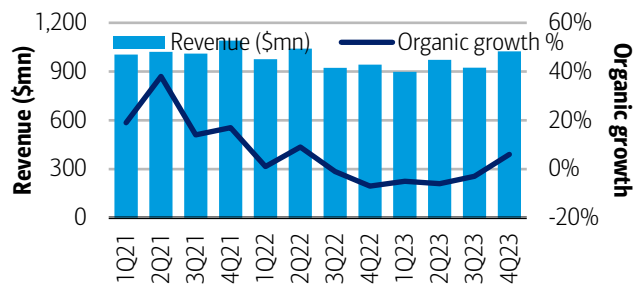
Source: Company filings

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The company reported Container sales up ~60%, up sequentially. Global Truck and Trailer sales were up low-single digits. Commercial Refrigeration sales were down high-single digits.

### Exhibit 11: Refrigeration segment revenue and organic growth

4Q23 organic revenue was up 6% y/y

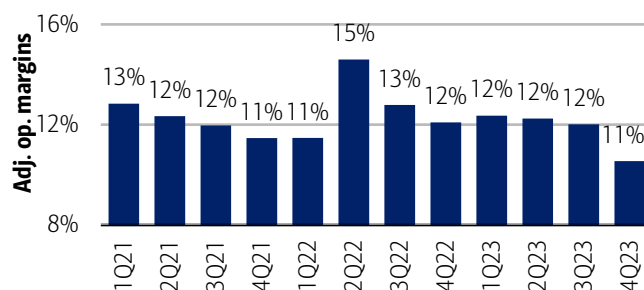


Source: Company filings

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### Exhibit 12: Refrigeration segment adj. operating margin

4Q23 adj. operating margins were 10.5%



Source: Company filings

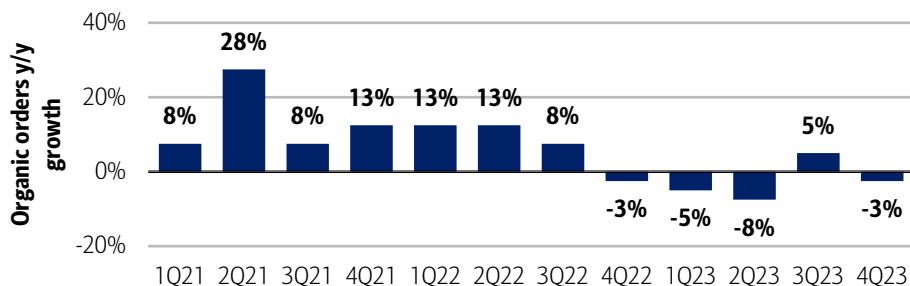
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## Fire & Security: down sequentially

Fire & Security organic orders were down 0 - (5)% y/y in the quarter.

### Exhibit 13: Fire & Security segment organic orders (y/y %)

Fire & Security organic orders down 0 - (5)% in 4Q23



Source: Company filings

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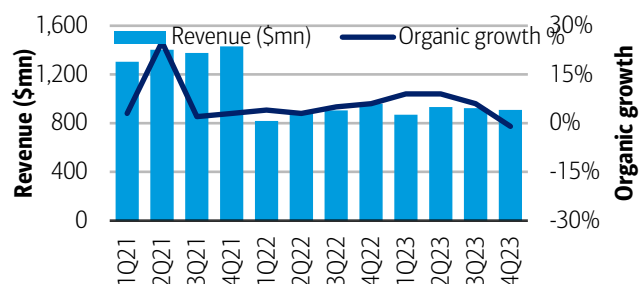
Fire & Security organic revenue was down 1% y/y. Industrial Fire and Security had high-teens sales growth. Commercial and Residential Fire had sales growth down low-single digits. Security was down double digits on tough y/y comps (4Q22 was up 40%).



Adjusted operating profit was up 14.2% versus the prior year, which includes the year-over-year headwind from the deconsolidation of Kidde-Fenwal (KFI). KFI deconsolidation was a ~(-5)% headwind.

#### Exhibit 14: Fire & Security segment revenue and organic growth

4Q23 organic revenue was down 1% y/y

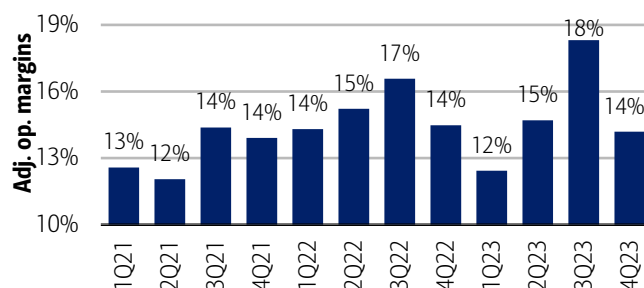


Source: Company filings

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#### Exhibit 15: 4Q Fire & Security segment adj. operating margin

4Q23 adj. operating margins were 14.2%



Source: Company filings

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## Variance analysis

### Exhibit 17: 4Q23 earnings variance

4Q adjusted EPS of \$0.53 beat BofA's \$0.50 primarily on lower taxes

	Actual	Reported		BofA Estimate		Variation Versus BofA Est.		
(in US\$ mn, except per share data)	4Q:22A	4Q:23A	YOY % Chg.	4Q:23E	YOY % Chg.	Dollar	Percentage	EPS
<b>Segment Sales</b>								
HVAC	3,316	3,293	-1%	3,375	2%	(82)	-2%	
Refrigeration	943	1,024	9%	984	4%	40	4%	
Fire & Security	960	909	-5%	924	-4%	(15)	-2%	
Eliminations and other	(114)	(124)	NM	(110)	NM	(14)	13%	
<b>Total</b>	<b>5,105</b>	<b>5,102</b>	<b>0%</b>	<b>5,173</b>	<b>1%</b>	<b>(71)</b>	<b>-1%</b>	
<b>Segment Operating Profit</b>								
HVAC	317	397	25%	404	27%	(7)	-2%	\$ (0.01)
Refrigeration	114	108	-5%	115	1%	(7)	-6%	\$ (0.01)
Fire & Security	139	129	-7%	128	-8%	1	1%	\$ 0.00
<b>Segment Total</b>	<b>570</b>	<b>634</b>	<b>11%</b>	<b>647</b>	<b>14%</b>	<b>(13)</b>	<b>-2%</b>	<b>\$ (0.01)</b>
Eliminations and other	(30)	(55)	NM	(32)	NM	(23)	72%	\$ (0.02)
General corporate expenses	(24)	(22)	NM	(24)	NM	2	-8%	\$ 0.00
<b>Total</b>	<b>516</b>	<b>557</b>	<b>8%</b>	<b>591</b>	<b>15%</b>	<b>(34)</b>	<b>-6%</b>	<b>\$ (0.03)</b>
<b>Segment Operating Margin</b>								
HVAC	9.6%	12.1%	250 bp	12.0%	240 bp	10 bp	1%	
Refrigeration	12.1%	10.5%	(150 bp)	11.7%	(40 bp)	(110 bp)	-10%	
Fire & Security	14.5%	14.2%	(30 bp)	13.9%	(60 bp)	30 bp	2%	
<b>Total EBIT</b>	<b>10.1%</b>	<b>10.9%</b>	<b>80 bp</b>	<b>11.4%</b>	<b>130 bp</b>	<b>(50 bp)</b>	<b>-4%</b>	
<b>Net Sales</b>	<b>5,105</b>	<b>5,102</b>	<b>0%</b>	<b>5,173</b>	<b>1%</b>	(71)	-1%	
COGS	3,858	3,668	-5%	3,884	1%	(216)	-6%	
<b>Gross Profit</b>	<b>1,247</b>	<b>1,434</b>	<b>15%</b>	<b>1,290</b>	<b>3%</b>	144	11%	\$ 0.14
Research and development	149	170		147		23	16%	\$ (0.02)
Selling, General & Administrative	590	483		587		(104)	-18%	\$ 0.10
Equity method investment net earnings	(40)	(40)		(35)		(5)	14%	\$ 0.00
Other Expense, Net	32	264		-		264	NM	\$ (0.25)
<b>Operating Income</b>	<b>516</b>	<b>557</b>	<b>8%</b>	<b>591</b>	<b>15%</b>	<b>(34)</b>	<b>-6%</b>	<b>\$ (0.03)</b>
Non-service pension benefit	2	1	-50%	-	-100%	1	#DIV/0!	\$ (0.00)
Interest Expense, Net	54	28	-48%	54	0%	(26)	-48%	\$ 0.03
<b>EBT</b>	<b>460</b>	<b>528</b>	<b>15%</b>	<b>537</b>	<b>17%</b>	<b>(9)</b>	<b>-2%</b>	<b>\$ (0.01)</b>
Income Taxes	112	55	-51%	97	-14%	(42)	-43%	
Tax Rate	24.3%	10.4%	(1390 bp)	18.0%	(630 bp)	(0)	-42%	\$ 0.05
Noncontrolling interest	8	19	138%	9	15%	10	107%	\$ (0.01)
<b>Net Income (Continuing Operations)</b>	<b>340</b>	<b>454</b>	<b>34%</b>	<b>431</b>	<b>27%</b>	<b>23</b>	<b>5%</b>	<b>\$ 0.03</b>
<b>FULLY DILUTED EPS</b>	<b>\$0.40</b>	<b>\$0.53</b>	<b>33%</b>	<b>\$0.50</b>	<b>26%</b>	<b>\$0.03</b>	<b>5%</b>	<b>\$ -</b>
Diluted Shares Outstanding	852	854	0%	855	0%	(1)		\$ 0.00
<b>Margin Analysis</b>								
	Actual	Reported		Reported		Variation (bp)		
	4Q:22A	4Q:23A		4Q:23A		BofA Est.	4Q:22A	
COGS	75.6%	71.9%		75.1%		320 bp	(370 bp)	
Gross Margin	24.4%	28.1%		24.9%		(320 bp)	370 bp	
SG&A	11.6%	9.5%		11.3%		190 bp	(210 bp)	
Operating Margin	10.1%	10.9%		11.4%		50 bp	80 bp	
EBT Margin	9.0%	10.3%		10.4%		0 bp	130 bp	
Net Margin	6.7%	8.9%		8.3%		(60 bp)	220 bp	

Source: BofA Global Research estimates, company reports

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## Quarterly earnings metrics for HVAC peers

The exhibit below compares quarterly earnings metrics from the last six quarters across the major HVAC manufacturers. We look at reported revenue y/y growth, incremental margins, adjusted EPS growth, organic revenue growth, and EBITDA y/y growth.

### Exhibit 18: Carrier's 3Q revenue growth outpaced peers

Quarterly earnings metrics for HVAC OEM peers

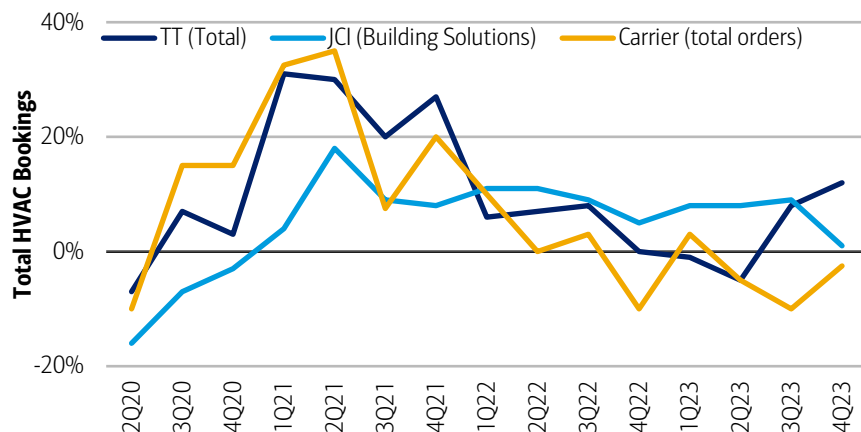
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
<b>Revenue growth</b>								
Carrier	-1%	-4%	2%	-1%	13%	15%	5%	0%
Trane Technologies	11%	9%	18%	14%	9%	12%	12%	9%
Lennox	9%	10%	18%	13%	4%	-2%	4%	6%
Johnson Controls	9%	4%	5%	4%	10%	8%	6%	0%
<b>Organic Revenue Growth</b>								
Carrier	10%	7%	8%	5%	4%	6%	3%	0%
Trane Technologies	12%	11%	19%	16%	9%	11%	9%	6%
Lennox	9%	11%	17%	13%	2%	3%	10%	6%
Johnson Controls	9%	7%	9%	8%	12%	9%	4%	-1%
<b>EBITDA Growth</b>								
Carrier	3%	1%	-1%	0%	4%	14%	20%	9%
Trane Technologies	6%	7%	21%	21%	18%	18%	18%	19%
Lennox	3%	4%	14%	27%	18%	22%	33%	30%
Johnson Controls	9%	17%	7%	11%	13%	-3%	9%	-9%
<b>Incremental margins</b>								
Carrier	-104%	-16%	-4%	18%	-2%	13%	65%	N/M
Trane Technologies	5%	14%	20%	22%	28%	27%	29%	37%
Lennox	-2%	4%	13%	23%	77%	-206%	113%	88%
Johnson Controls	14%	-14%	27%	50%	18%	33%	22%	-400%
<b>Adj. EPS growth</b>								
Carrier	14%	9%	-2%	-10%	-5%	13%	28%	33%
Trane Technologies	11%	12%	26%	34%	26%	24%	23%	19%
Lennox	4%	9%	21%	11%	20%	23%	31%	38%
Johnson Controls	21%	3%	13%	25%	20%	20%	11%	-24%

Source: Company filings

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### Exhibit 18: CARR vs other OEMs who disclose orders

CARR orders were down 0 – (5)% in 4Q23



Source: Company filings

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## EPS guide introduced at \$2.80 - \$2.90

Management introduced EPS guide of \$2.80 - \$2.90. We lower our '24 EPS estimate to \$2.75 to reflect timing of divestures, lower estimates for Viessmann, and higher share count.

**Exhibit 20: Carrier guidance versus BofA estimates**

EPS guide introduced at \$2.80 - \$2.90

	<b>CARR 2024 guidance</b>	<b>BofA 2024 estimates</b>		<b>BofA 2025 estimates</b>	
	<b>As of 4Q23</b>	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>
<b>Organic %</b>	<b>MSD</b>	<b>5.1%</b>	<b>4.2%</b>	<b>6.3%</b>	<b>5.5%</b>
M&A %	+15%	17.2%	13.4%	-5.8%	-12.5%
FX %	~0%	0.0%	0.0%	0.0%	0.0%
<b>Revenue growth</b>		<b>22.3%</b>	<b>17.8%</b>	<b>0.2%</b>	<b>-6.9%</b>
<b>Revenue</b>	<b>Over \$26.5bn</b>	<b>\$27,111mn</b>	<b>\$26,024mn</b>	<b>\$27,164mn</b>	<b>\$24,233mn</b>
<b>Adj. operating profit</b>		<b>\$4,224mn</b>	<b>\$3,949mn</b>	<b>\$4,515mn</b>	<b>\$3,940mn</b>
Adj. operating margin	15.0% - 15.5%	15.6%	15.2%	16.6%	16.3%
<b>Adj. EPS</b>	<b>\$2.80 - \$2.90</b>	<b>\$2.97</b>	<b>\$2.75</b>	<b>\$3.22</b>	<b>\$2.85</b>
Interest expense	\$525mn - \$550mn	\$653mn	\$538mn	\$635mn	\$451mn
Tax rate	~23%	23%	23%	23%	23%
Share count	~915mn	912mn	915mn	913mn	907mn

Source: BofA Global research estimates, company filings

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**Valuation**

We base our \$55 price objective on 13x EV/EBITDA of our '25 estimates. 13x is at a discount to peers trading at 14x on '24 estimates. We believe the discount is warranted given the potential for destocking across res and non-res.

**Exhibit 21: Carrier comparable valuation analysis**

Our \$55 PO is based on 13x EV/EBITDA of '25E

	<b>Stock Price</b>	<b>P/E</b>		<b>EV/EBITDA</b>		<b>EBITDA Margin</b>		<b>EPS Growth</b>		<b>P/FCF</b>	
<b>Company</b>	<b>2/8/2024</b>	<b>2024E</b>	<b>2025E</b>	<b>2024E</b>	<b>2025E</b>	<b>2024E</b>	<b>2025E</b>	<b>2023E</b>	<b>2025E</b>	<b>2023E</b>	<b>2025E</b>
ATCOA SS	SEK171.05	28.8x	27.0x	18.4x	17.2x	26.3%	26.4%	0.2%	6.4%	27.4x	26.9x
EMR	\$102.30	22.0x	26.3x	15.1x	N/A	26.8%	N/A	10.3%	-16.6%	21.4x	19.3x
HON	\$193.24	19.2x	17.1x	13.2x	12.1x	26.3%	27.2%	10.0%	12.0%	18.3x	16.4x
JCI	\$54.88	13.1x	11.5x	9.4x	8.5x	16.3%	17.0%	14.1%	14.1%	15.1x	10.1x
LII*	\$448.10	22.7x	20.2x	16.8x	14.6x	19.5%	20.1%	10.3%	12.4%	27.5x	22.0x
TT	\$272.22	28.5x	26.4x	19.9x	18.5x	17.7%	18.0%	7.9%	8.2%	28.6x	26.7x
DKILF	JPY 21,180.00	19.5x	17.9x	9.7x	8.8x	14.5%	14.8%	14.6%	8.7%	20.7x	23.4x
AYI*	\$239.61	16.1x	15.5x	11.4x	10.6x	16.9%	16.7%	N/A	N/A	15.2x	15.6x
<b>Average</b>		<b>21.2x</b>	<b>20.2x</b>	<b>14.2x</b>	<b>12.9x</b>	<b>20.5%</b>	<b>20.0%</b>	<b>9.6%</b>	<b>6.5%</b>	<b>21.8x</b>	<b>20.0x</b>
<b>CARR</b>	<b>\$54.48</b>	19.8x	19.1x	13.8x	13.3x	16.9%	18.1%	0.9%	3.6%	58.3x	23.8x
<b>CARR at PO</b>	<b>\$55.00</b>	20.0x	19.3x	13.9x	13.4x	16.9%	18.1%	0.9%	3.6%	58.9x	24.0x

Source: BofA Global Research estimates, Bloomberg

\*Bloomberg consensus estimates used. For all other companies, BofA Global Research estimates

Note: Estimates calendarized for December year-end

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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

BofA Securities is currently acting as Financial Advisor to Carrier Global Corp in relation to the sale of its commercial refrigeration business to Haier Smart Home Co Ltd., which was announced on December 13, 2023.

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APi Group	APG	APG US	Andrew Obin
	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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	$\text{Cash Flow From Operations} - \text{Total Capex}$	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	$\text{Cash Flow From Operations} - \text{Total Capex}$	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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.

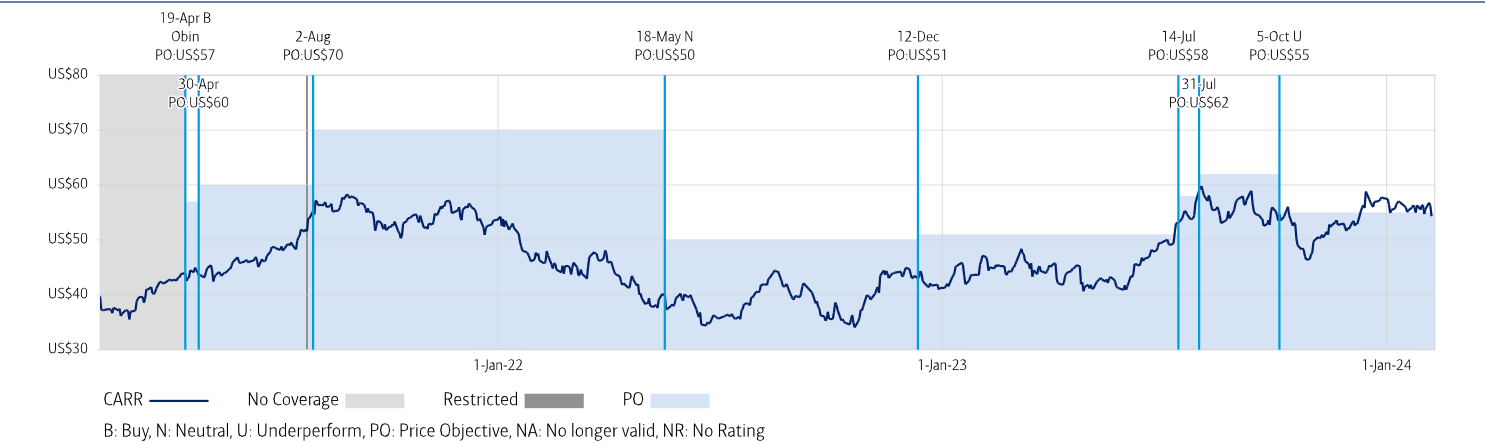
iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

Carrier (CARR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. Coverage Cluster is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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## Other Important Disclosures

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