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John: All right. Good morning. We're gonna start again up here. Once again, my name is John Walsh. I'm with Credit Suisse, and I cover the electrical equipment and multi-industrial space. Up here with me, we're very happy to have Mike Lamach, CEO of Ingersoll and Sue Carter, CFO. I think before we go into the fireside chat, Mike had a couple of comments he'd like to make.

Mike: Thanks, John. First of all, congratulations on your first conference.

John: Thank you.

Mike: Thanks for having us. Glad to be here. I'll do a one to three-minute overview. I'd start with strategy for the company, overarching it for those who don't know the company well and how we think about creating value. The global strategy that we have is around impact from a sustainability perspective. We think about the world urbanizing and becoming hotter for sure. The science points to that. More resource constraint. More concern about clean air, clean water. We think we're at the nexus of that. We excel at reducing the energy intensity of buildings and industrial processes, in reducing greenhouse gas emissions, preserving food and perishables, and generally providing levels of productivity for our customers with their assets.

But the greenhouse gas emissions surprises people I think. When you think about the context for that, think about 15 to 25% of all the world's greenhouse gas emissions occur from HVAC systems in buildings. If you wanted to eliminate greenhouse gas emissions by 15 to 25%, you would just put into practice what we are already doing today, which is next generation refrigerants going into higher efficiency units, and we knock out 99.99% of the greenhouse gas emissions from HVAC in commercial buildings.

Couple that with transport refrigeration with Thermo King, you've got another big environmental emitter with the HVAC systems sitting on tops of buses or trailers or marine containers. These little engines that power them that could be electrified. Take it further to air compressors or to industrial plants where we provide process cooling, process heating, and air for motive forces to move things around a factory or power factories. We probably, more than any other company you're gonna talk to, can reduce greenhouse gas emissions by actually just enabling what we already have developed into the marketplace. And in some cases, we've uniquely developed it into the marketplace.

We don't ask customers to choose between greenhouse gas emission reduction and energy efficiency. We're able to do both, and that's one of the reasons we've been really successful over the last say five years.

This is an overall platform for the company, and so we think about that as how we wanna build the company going forward. We've spent about 10 years building out an operating system inside the company. Simply put, it's implementing lean in the company, a way of operating the company with continuous improvement where all the targeting we do across the company is always set to achieve consistent top quartile performance in the metrics that matter to shareholders, to employees and to customers.

From a shareholder perspective, we would think about that as strong, top quartile topline organic growth, incremental margins, free cash flow, EPS growth and cash flow ROIC. We've been top quartile there really over the past decade and almost every year within that decade, we've been top quartile in those areas. We've done that through cycles. We've done that through a weak industrial cycle, through a weak HVAC cycle, so we try to generate that on a consistent basis over the long run.

We've built a very experienced management team. We've got very little turnover across the company. We think the culture of the company is really important. We think that in some ways that really enables the strategy of the company, and when you combine that with the way that we think about allocating capital, it's a powerful way to grow returns for shareholders. We think about that capital deployment strategy as being dynamic.

There are a few principles that are fixed. One is we're gonna always maintain a really healthy level of investment in organic growth in the businesses. The primary thing that we'll always do is make sure that we're investing in high ROIC projects across the company. Second, there's a longstanding commitment to paying a strong and growing dividend that would be equal to or above net income growth inside the company. And then what's left is really share buyback and M&A. We've said that we're always gonna control dilution with buyback, but beyond that we just move between, the better option, between share buyback, when we think in terms if value warrants it or M&A when we think the value of a particular acquisition would warrant it as well. We've been disciplined around that.

Of course, over the last 10 years we've been a prolific buyer of our own stock over that period of time. I think we've bought over six billion dollars in the last five years alone. We've got an existing authorization out there. We just increased it. We've got about \$1.9 billion in capacity out there. More than anything, it just says that we feel good about the cash flow that we're generating, and we wanna make sure that we're deploying it back to shareholders in one way, shape or form.

Looking at 2018 and a little bit into 2019, in '18 we just had strong and healthy markets. We've had that really across the whole portfolio. In my roughly 10 years as CEO, it's been a situation that we've actually had all of our industrial businesses, all of our climate businesses in every part of the world growing. Invariably, over that 10-year period, there's always something that was wobbling but for now, things have been moving in a very healthy and strong, positive direction.

The leverage of profitability of the company. Again, targeting that top quartile performance there. About 25% in the third quarter. We think that will be the target for the back half of the year. Our target for 2019 would be the same. That's really managing through this whole price/cost equation, tariffs in particular affecting that. Productivity, and then just level of innovation that we're able to put out in the marketplace.

When we look at 2019, it's a bit early here, but we've got probably more visibility going into '19 than I can ever remember having. First of all, when you think about our commercial HVAC business and our industrial compressor business, which is the bulk of the company, half of those businesses are service-based. That's up probably 20 points

from where it was a decade ago. It's nice to have that visibility going into any year. But beyond that, from an HVAC perspective on the commercial side, we've got a strong backlog of institutional projects going forward. And when I think about the Thermo King business, you've got this tremendous backlog now from Class A tractors all the way through to trailers, kind of spilling back down through to refrigerating units for us and those little power units that create more backlog, more visibility than we've ever had into 2019. Absent of some shock to the system, 2019 would be a very good year for us.

John: Great. Thank you for that overview. One of the things I'd like to start with is sustainability and what the actual financial impacts of it are. How has that driven either specific new products that you've brought to the market? Or when you think about the margin? Reduced waste through the system as you take cost or take waste out of the entire lifecycle of a product, but really trying to put some specific examples that either have some type of sales or margin impact as we think about that broader term.

Mike: First of all, I didn't know that you were uniquely qualified to ask that. I realize that you're lead certified, which is one of the only ... You're the only analyst I've ever met that's lead certified so congratulations on that.

When you think about sustainability, the first thing I would tell you is that five years ago although it was something that customers were interested in, they were always moving back and forth between what's the trade off to energy efficiency. That was a problem that we solved a number of years ago through a lot of product development, through a lot of innovation, that what's out in the marketplace today that we're selling today actually is more energy efficient and reduces greenhouse gas emissions as much as 99.99%. So you're not asking customers to trade off on that.

Places like the EU, where there's a tremendous social responsibility around the environment, in China, where there's a social political motivation around clear air and clean water are the fastest growing parts of the business we have. I said in 2016 that I thought we would double the business by 2020 in the EU and in China, and we're ahead of that pace for 2020. It's on that tailwind around sustainability. When you give customers the equation that says I'm not only gonna reduce your costs, I'm gonna do that with clear air, clean water as an end result in the environment, that's been the real impetus to the growth over the last few years. I think this continues.

And I think that when people think about the cycle, it's hard now to talk about what cycle we're talking about. First of all, our business is diverse, but cycles may not apply as much because I could actually see where the industrial economy may be differing from the cycle that we'll see in the HVAC businesses as it relates to this tailwind and the impact that HVAC has on the environment. You could actually see growth rates that are double or more organically in the HVAC space just on that tailwind around the environment.

Even in the U.S., where the Administration's sort of backed off on its view around the environment, you're seeing cities and states doubling down on it. I think that this is a trend that's gonna be with us for decades, and I think it's critically important to the environment.

John: As we think about that, does it mix the portfolio towards more applied unitary ... I know you've talked from a margin perspective they're both around the same, but-

Mike: The mix doesn't really change. The mix is really based on applying the right solution to the right building or the right customer equation. We're agnostic around whether or not it's ducted, ductless or applied. Margins are good in all regards. When we go through a large applied growth cycle like we're seeing right now in institutional business, in institutional customers, that carries with it a really long, really profitable service tail.

When I say that 50% of the HVAC commercial business is service and 50% of it's equipment, the 50% service is really built on the applied portfolio going into big institutional complex buildings. To get the efficiencies out of these systems, the integration of controls and the algorithms that drive the equipment and the engineering of the equipment itself, they become more complicated. As a result, really it's an advantage to the OEM to be able to service it. It's like an old car. If you had an old car in the '60s and '70s, and you were mechanically inclined, you could open the hood and take a look, maybe figure out the basics of what's going on. Open the hood today on a Mercedes, and tell me if anybody can figure out what's going on. You wouldn't take your Mercedes to a BMW dealer to get it diagnosed. I think that's happening with large air compressors and large HVAC systems in the modern day here.

John: That then sounds like when you sell an applied unit, it's almost ... It's gotta be above 90% attachment rate?

Mike: Yeah. I would say today, if we're selling something new, almost anywhere in the world it's nearly 100% attachment rate. I would also tell you it's about eight times more profitability over the lifecycle of say 30 years than the original equipment. The equipment itself is profitable. But the service tail is eight times that over that period of time. If you sell a million dollar piece of equipment, a big air compressor or a big applied system in HVAC, one million of that is gonna be the upfront cost, nine million of that's gonna be the energy used, the refrigerants, the maintenance, other factors that would go into the customer's total cost of ownership equation. If you can really create an advantage, energy efficiency's an example, would be a big one or greenhouse gas emission reduction, particularly if the company has an incentive to get that from a state or from a government, you can really translate that into market share and margin expansion.

John: Thinking about maybe China as a region first to talk about, you've changed the strategy there. You've gone to more direct selling. I believe that that market mix is more towards larger machines, larger units. Can you give us an update, because obviously China's on everybody's mind. We've heard that there's certain parts of HVAC it doesn't sound like where you play where they've been de-emphasizing some of the incentives. Maybe give us the lay of the land in China.

Mike: Yeah, it's really on the residential side. Residential's fairly overbuilt and then from an HVAC perspective, there's a lot of large domestic players that really sell that through distribution more as a white good sale, which is about 180 from where we are, where it's a large complex building or a factory, where it's an applied system, engineering has

to be done, it has to be serviced and maintained, and that doesn't lend itself toward distribution. As our business evolved there, we realized that look, these are complex systems that really can't be sold through distribution on a normal basis. We dramatically changed out the footprint from what was partially direct and partially indirect to largely direct at this point in time in the HVAC space.

We're seeing that tail for service happen, as it should. We sell service with everything that we put in place. That's a change over 10 years. China, 10 years ago, I would have said that people thought about warranty and service. Now, service is required to have a warranty. It's evolved. Even in China now, the attachment rate is moving closer toward what we're seeing in the rest of the world.

John: You've talked a lot about energy efficiency and greenhouse gas emission, and that's really the wheelhouse of HVAC, but one of the things we are hearing people talk about more in the green building space is around wellness, productivity, some of these things that are less quantifiable. Are you hearing customers, are you bringing solutions to help broaden out-

Mike: Yeah. People look at buildings, customers look at building in three broad buckets. One is going to be systems that save energy. If you think about the assets in a building, very little of that asset's gonna be productive in terms of having return on it. HVAC and lighting, when managed together, so it's not the need to make the lighting fixture, but it's the need to manage the occupancy of the lighting, are about 60%, often as high as 80%, of the utility bill for the building. The other 20% is gonna be plug in devices, coffee makers and computers and such. They look at that as one bucket.

Fire and life safety tend to be seen as a second bucket with code driven, different codes driving what you do there. And a third bucket would be security, security systems. To the extent that you can integrate the information across the building to make the building more productive, where access control controls lighting and lighting controls HVAC systems, which we do today, our company does today through open systems, open protocols to make that happen, that's an example how you make the building more productive.

The other thing that we do today which is interesting, and I think we're the only ones that do this, is we'll not only model a building, I'm talking about windows, glazing, structure the shell. Our system is sort of the de facto standard for modeling buildings called Trane Trace. We can then model a building, install the building, and then manage the digital twin of that model to the actual performance of the building. If the building moves off the model, we can often remotely move the building back to the model, so it is a less of effect of having to roll resources to go do that, mechanics and technicians to go do that, plus they're scarcer resources and more expensive resources today and in the future, so it's good to try to avoid that.

If the customer changes the way the building is used, we can change the model to reflect the way the building is being used. Because the most important thing, and you probably know this, about when you commission a building is that's generally when it was most energy efficient is the day it was commissioned and then it varies off that. So

it's a really big idea to have 10, 20% of float in the system over time come back to that building model. Again, go back to this fact that 60 to 80% of the energy in a building is HVAC and lighting. If you're having 10 to 20% float of that bill, it's an enormous incentive to draw that back to the model.

We invest heavily in the data and the analytics and in the sensors to make that happen and into the integration across the building to do that. We don't believe you have to make the security systems, the fire systems, the HVAC systems, that's not the way customers are buying them today. It's not the way the channel is structured to sell it, or install it or service it. We do think there's a bigger idea around using the data and the information around the building to make it more productive.

John: Building on that, is this stuff that you've acquired the capabilities through R&D and then how do you monetize it? Does it help you sell more HVAC or is it a separate subscription or model or license?

Mike: The modeling software we developed in the 1960s on paper and then to calculators and then eventually to systems and now it's ubiquitous that ... You can get this stuff, any architect or engineer that's gonna use this modeling software across buildings. But some of the telematics that we would use like in the TK transport business or some of the way that we look at remote management, we've made small acquisitions around technologies or interesting ideas there. But largely, we've been able to develop it over time organically. There's a really strong competency around this in the company. But we've also been pragmatic about when to go buy it on the outside when we see something interesting. On the M&A front, a lot of what we've done have been technologies, whether it's a particular technology or a distribution channel, but they've been generally bolt-ons to that.

John: Maybe switching gears from the topline, thinking about the margin, price/cost ... I know you've kind of talked about it a lot on the most recent calls, but how should we think about the benefit of how this starts to roll through in Q4 and into next year on arguably an industry that has the ability to get price. I'd be curious on how we're seeing realized price versus announced price, declining brass, copper, steel costs. Last time this happened, we did see a nice inflection on the margin, but we didn't have tariffs. And we might not have had as much employee inflation and just kind of general natural inflation. How do you balance those, and how do we think about it actually flowing through on the margin?

Mike: Ten years ago, just to go way back when we acquired Trane, we looked at the business of Ingersoll Rand and legacy Trane and realized that legacy Ingersoll Rand and legacy Trane never actually achieved material inflation with price over the recorded time that we were able to go back and look at that. We were trying to get synergies out of the combined company, and we invested heavily in a pricing capability in the company, which is now 10 years running. For the first seven or eight years, there wasn't a year that we missed price over material inflation and in some years where we estimated inflation to be high, like 2016 we thought copper was gonna go up, it went down. We had 160 basis point spread, which we in the industry hung onto. There's good structural resilience around the industry holding onto price.

Fast forward to late '16, '17, '18 where you've had inflation run up and tariffs run up. The industry was chasing that because for the most part 80% of what we price is project-specific. It's relative to a particular installation, relative to a set of competitors, and how we think about how our offer is more valuable than theirs or vice versa and how we would price that into the equation.

As you look at 2018, we've put five times more price into the system than we've seen in any other year that we've had as a result of tariffs. If we look at 2019, and we have no further shocks to the system ... Everything that we know of has now been priced into 2019 ... We should end up with 20, 30 basis points positive spread, which is what we really set our operating model to look like because we think that's sustainable. We think that we can develop enough innovation to create 20, 30 basis points of positive spread if we're doing our jobs right. That's why we model that.

If you had actually a downturn in steel, copper, aluminum logistics, obviously we would have more of a 2016 positive spread. I don't really know where this all goes in '19, '20, '21. I do know that there's good industry structure. I know that we've got a good pricing capability and discipline. And I do know that over time these things tend to go the other way, meaning they deflate. When they deflate, we tend to hang onto the spreads. It's a little bit counterintuitive, but in these environments, these can be really a good thing in the long run for our businesses.

John: Exactly. I guess I'll check. Is there any questions in the audience? One place that we didn't talk about around the globe, and I think it's an interesting opportunity ... There was a big article in the Journal about it ... was India and their desire for more HVAC. Is that on your radar? Is that something that would be-

Mike: It's been on our radar for a long time. The Economist even wrote a broader article. It was broader than India. I don't know if you saw that, but it talked about just sort of the global increase of HVAC and what that meant to energy demand, what that meant to greenhouse gas emissions, and it was absolutely not sustainable. You would say that at some point, whether it's energy capacity of the infrastructure or it's greenhouse gas emissions in the environment or it's likely to be a combination of the two things coming together, the capital required plus the concern about the environment, there's going to be more regulation around this stuff, cleaner refrigerants being put into these systems and customers, particularly at the commercial institutional level that will value differences in energy efficiency.

In residential as an example, if the efficiency level is set, everyone's building to that efficiency level, and that's a cost and distribution and strength of the deal or in the brand and warranty, those things are set. But you go to the commercial space or you go to the large air compressor space, if we get two or five or ten percent more efficiency than the next competitor, it's like running out a 30-year financial model where you've got a two percent terminal value and somebody uses zero or five versus two. You can price those things because that's got an enormous impact when 90% of the total cost of ownership is something other than the equipment. And of the 90%, the biggest part of that is the energy use. We're always trying to squeeze more efficiency out of systems.

This is where the technology, the development, the new technology work we're doing, the new product development we're doing, is always around passion for the efficiencies of equipment and systems and then how to monetize that with customers.

John: Maybe coming back to thinking about a building and what you're offering ... One of the things that's no secret, there hasn't been a lot of productivity to construction markets, and I would assume that part of maybe what you're offering would be to help that. Whether it's there's some modular systems or the way you design a system. Is that part of the selling equation?

Mike: Well, one thing it used to be in days gone by there were HVAC equipment companies and then there were controls companies. And now there's not an HVAC system or an air compressor system that we sell that doesn't have controls on it. When you're doing that stuff at the factory level, one, sensors have become cheap. You're building the equipment around the sensors. Often, once you've built the equipment, you couldn't control those points later because they're built inside the equipment. That's first. Secondly, you're moving this stuff to projects and now you're limiting conduit wire because you're doing this with cloud-based wireless systems so that the need for an electrician goes away. Thirty percent of the cost of the controls job goes away if you're not running conduit and running wire and it's wireless. That would be a great example.

And if you think about the construction trades, it's stressing right now for these guys, finding electricians particularly, plumbers, pipe fitters, welders, carpenters, et cetera. It's going to be more difficult for our general contractors or customers to find those people so they're looking for those sorts of productivity ideas.

John: Gotcha. We couldn't have a conversation without talking about industry and the potentials around consolidation. Do you have any updated view? We've now had an announcement or how do you think about the industry and consolidation over time?

Mike: The nice thing is, we've got a view for a long time and now that that view is playing out, the nice thing is we don't have to change our view because it's sort of what we would have expected. I do think that there would be industry consolidation.

I do think that in our case what's important to know is we've got a really strong position. Anything that we would do would have to be very compelling from our point of view and certainly as it relates to other combinations, we've thought through the implications of other combinations. And we see frankly as much opportunity as we see risk if not more opportunity in some of those as well. I do think that you'll see consolidation because of, as an example, five years ago the investments companies were making into next generation refrigerants and platforms is probably three or four times what it is today versus five years ago, where some of the largest parts of the synergy equation now is around new technology, new product development, keeping up with regulations, let alone getting in front of regulations. Now we're in front of the regulations, which is a great place to be. But anybody behind the regulations has got a tremendous amount of cost and catch up to do there.

John: Very interesting. As we think about some channels and how they've shifted over time, E-commerce isn't a big part of the distribution channel for HVAC, particularly on the

residential side. But we are hearing about it. Maybe you can give your thoughts around the impacts that E-commerce will have to the industry.

Mike: I don't think the big idea is gonna be E-commerce, which has been around a long time. I think it's really digital enablement of the buying process and digital enablement and transparency in the buying process. For us, a lot of the investment has been around, particularly when I think about the residential HVAC space which is generally how people think about the E-commerce question, providing consumers with more information about what an actual installed cost would be and working with our dealers by every zip code to make sure they're comfortable with the ranges we're giving consumers would be an example of that. Our ability to drive more people to our digital experience, to our website, more consumers has been a big deal. We're driving twice as many as we were say five years ago into our website, and we're also doubling if not more than doubling the amount of retention we have around actually scheduling appointments and closing appointments with consumers. That whole buying process, making that simpler, making that more digitized, closing the loop with dealers and warranties is a bigger idea. The transparency, I think is the key thing there.

John: Gotcha. Obviously, I think it's about 80% of the market is replacement, but just given interest rates, I gotta ask the question. Have you seen any change in behavior or how do you think about that residential portion into '19?

Mike: When interest rates go up, it may put a little pressure on the mix, but what really would put pressure on the mix would be an outright recession or just the bottom falls out of consumer confidence. How do people feel about jobs, home ownership, their future? When that happens, it always shifts down toward lower efficiency systems. Now, you can't really repair anything that would have been built with older refrigerant using our 22, so if somebody's gonna have heating or air conditioning which they're gonna generally have, they're gonna opt on for potentially a lower efficiency unit.

This is important for us because this was an investment starting in 2013 that we made in getting the whole product portfolio right. An HVAC system for every home at every price point and a dealer who was geared to selling that to every price point. Our growth and our growth in share and margin is actually interesting because we haven't lost anything at the top. We've gained incrementally. We've gained tremendously at the lower efficiency points. If we were to see a turn in our HVAC business residentially, one of the things that's different about the company today is that we're way better positioned to participate in growth in that lower efficiency segment.

John: Kind of the same thing maybe, thinking about the commercial HVAC side with service being a larger mix now, if we were to see some softness, how does that change the way decrements or something would flow through the business?

Mike: If you go back 10 years ago again, think about 2008 when IR bought Trane and three months later the bottom fell out of the economy and we're integrating Trane, Trane hadn't started the refrigerant change back in, it was R410-a was the refrigerant. There was an enormous effort to integrate Trane and to be able to produce product that was compliant. You have to adjust the starting point of where the trough was in 2008 and

2009, but then if you think about then what's changed in terms of the business, the business mix, one big thing would be the service mix is probably up 15 to 20 points. We think that's a resiliency factor across the company. Each of the individual businesses has worked to diversify, so TK would have been much more North American trailer focused. Today it's about seven or eight businesses, where the most profitable businesses happen to be things like auxiliary power units and European trailer and telematics and air cargo and things we didn't do back at that timeframe.

And then go back to the residential. Recognize Residential is 10 or 15% of the company, so it's not gonna move the company. But even the ability to be able to move down in mix with ... move down in mix and move up in profitability, which is usually hard to get your head around, which we did over the last five years by getting into that 13, 14 SEER product has been a huge benefit for us.

There are a number of things that I think that make the company much stronger going forward. The other thing, too, is just the operating system itself. It's 10 years old. We run the company that way. We promote people that way. We incent people that way. It's a very powerful incentive in the company to really execute with the operating system and to improve it. That didn't exist 10 years ago.

John: Maybe a nearer-term focused question. In New York, Thanksgiving was the coldest it's been in quite some time. Obviously that's our little microcosm. But how is the heating season starting off here?

Mike: Yeah, that's probably a better question for somebody who's residential HVAC related, and that's 90% of their business 'cause the weather really doesn't move our business much. I would if anybody buys and sells Ingersoll Rand stock based on the weather, you're probably barking up the wrong tree. There are better trees there to bark up. Weather normalizes relatively quickly. We tend to see certainly over a 16 to 18-month period of time, weather normalizing. We know it's normalizing by getting hotter, not colder over time, and we know that the sustainability story continues. Because anomalies in the weather or in ... hurricanes, fires, that sort of thing are increasing. We generally get a little bit of a spike frankly when we see hurricane run through and the need to reconstruct.

John: Just thinking about the portfolio, maybe a little bit of color on ... You talked a little about where you might wanna go with additions, but maybe on the ... Are there things that could be pruned that might not be-

Mike: Well, it's a bit of a high class situation for us. If you think about ... Another way to look at your question is every business we own, we're running it like we own it and we're investing organically to keep it relevant and to keep it growing. Best example of that is Club Car, which we ... 18 months ago the business was 15% smaller because we didn't have a consumer vehicle. We organically built, launched and ran a consumer vehicle and probably made Club Car \$300 million more valuable today than it would have been 18 months ago. We tend to run Club Car, our tools business, and our material handling business three to ten points higher than most of the logical people that might think about that as an acquisition. It's a bit of a high class problem.

Our view of this is if we were to divest an asset, we think about the net cash from that divestiture. If you were to buy shares back as a proxy, are you neutral or accretive? If you're not neutral or accretive, it's not costing us anything more to run the business and run it well. Some of the people that looked at some of those businesses look at it and say, well gosh if you're running it three, five, ten points higher than we are, we're not sure what we can do about that. We're not sure how we add value to that. It's a good problem to have.

It's a bit of a value trap in some of these areas, but the flip side of your question is we definitely see investing in the climate assets, again the sustainability story, and the compression assets because of the relationship and the technology between that and our applied HVAC business.

We like the fluid management business, which is a little bit of a gem in our portfolio. We like it 'cause of the margins of the business and the stickiness of those margins and those relationships with customers. We also like it as it relates to adjacencies in buildings around water and around some of the metering and dosing that you would do around critical fluids. Again, it follows the sustainability theme.

John: We haven't really had a chance to touch on industrial, but any update there on what you're seeing in your customers in China and then maybe your thoughts on ... There's still some I think larger compression backlog to book through that is gonna come through at very attractive incrementals, where we are on both of those fronts.

Mike: What you find really across the world and China for sure is customers that have seen good growth that are hitting their theoretical capacities. They can work overtime to the extent they've got the ability to work extra shifts or time, but they're having a hard time finding people. There's a limit to how much overtime people wanna work. You've got that dimension happening.

Then you've got this equation that says if I were to add new capacity, where would I put it. And if I don't know the rules of engagement around trade, then I'm gonna wait til I understand the rules of engagement. I need the capacity, but I'm not gonna go make a dumb decision and install it somewhere where I'm gonna have a disadvantage. To me, any resolution really to the whole tariff discussion is gonna be a huge positive as it relates to customers understanding the rules of engagement. 'Cause they're at their capacity levels here where they normally would be adding capacity, particularly in larger air compressors. We're probably a couple of million off the peak of where we were in the-

Sue: A couple hundred million.

Mike: Yeah, \$200 million off the peak of where we were, and we leverage those things let's say 40 or 50% so you end up with \$80, \$100 million worth of earnings potential or 25, 35 cents EPS that potential getting back to that peak. Additionally, that pulls through service at eight times the equipment value over a 30-year period of time. That's a nice virtuous cycle there for us. But, the catalyst there to me is getting more certainty around trade.

John: Gotcha. And then maybe I'll just try to sneak one more in here. As we think about your CAPEX plans into next year, you laid out earlier this robust topline environment. Are you making your own new additions in capacity?

Mike: Sue, you wanna cover that?

Sue: Yeah, if you think about the long-term, John, with CAPEX, it should be one to two percent of revenue. In 2018, we've invested a little bit in our footprint and our footprint optimization which has got it more towards the upper range. But in general, we're not a high CAPEX type of business. That one to two percent gets you in the range of depreciation, and so we don't have to do a lot of things in that area. It stabilizes right around there even in years, like I say in 2018, where we're investing a little bit more.

Mike: I'd say if we're deploying capital toward projects in excess of weighted average cost of capital, we're building economic value. An example of that would be we closed a couple of factories last quarter. We announced that. We took about 800 to a million square feet if you include warehouse space out, put about half that back in by expanding another facility, the ROIC on that was very strong. Some of that CAPEX is going into good projects. All of it's going into projects, but they have a return.

Sue: And they all have good returns. Yeah.

John: Great. Well, I would like to thank Mike and Sue, and thank you.

Mike: Thank you.

Sue: Thank you.

Mike: Appreciate it.

John: Thank you.