PARTICIPANTS

Corporate Participants

Zachary A. Nagle – Vice President-Investor Relations, Ingersoll-Rand Plc
Michael W. Lamach – Chairman & Chief Executive Officer, Ingersoll-Rand Plc
Susan K. Carter – Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

Other Participants

Nigel Coe – Analyst, Morgan Stanley & Co. LLC
Andrew Kaplowitz – Analyst, Citigroup Global Markets, Inc.
Joe Ritchie – Analyst, Goldman Sachs & Co. LLC
Charles Stephen Tusa – Analyst, JPMorgan Securities LLC
Julian Mitchell – Analyst, Credit Suisse Securities (USA) LLC
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Timothy Ronald Wojs – Analyst, Robert W. Baird & Co., Inc. (Broker)
Robert Paul McCarthy – Analyst, Stifel, Nicolaus & Co., Inc.
Jeffrey Todd Sprague – Analyst, Vertical Research Partners LLC
Josh Pokrzywinski – Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Ingersoll-Rand Second Quarter 2017 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like the turn the call over to Mr. Zac Nagle, Vice President Investor Relations. Please go ahead.

Zachary A. Nagle, Vice President-Investor Relations, Ingersoll-Rand Plc

Thanks, operator. Good morning, and thank you for joining us for Ingersoll-Rand's Second Quarter Earnings Conference Call. This call is also being webcast on our website at, ingersollrand.com, where you'll find the accompanying presentation. We are also recording and archiving this call on our website.

Please go to slide two. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of Federal Securities law. Please see our SEC filings for a description of some of the factors that may cause the actual results to differ materially from anticipated results. This presentation also includes non-GAAP measures, which are explained in the financial tables attached to our news release.

The participants on today's call are, Mike Lamach, Chairman and CEO, and Sue Carter, Senior Vice President and CFO.

With that, please go to slide three and I'll turn it over to Mike.

Michael W. Lamach, Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Thanks, Zac, and thank you to everyone for joining us today. Our first half results continue our strong track record of performance and position us well for the balance of 2017 and beyond, as we look ahead to the 2018 to 2020 targets that we laid out in May at our Investor Day.

First half performance is running ahead of our initial expectations and gives us confidence in raising our full-year revenue guidance to approximately 4.5%, and raising our adjusted continuing EPS guidance to approximately $4.50, which is at the high end of our previous range, and maintaining our strong cash flow guidance of free cash flow equal to or greater than 100% of net income.

Today I'll start by discussing how focused execution of our strategy is delivering sustainable high levels of performance. I'll also provide comments on how our key end markets are shaping up for 2017. Sue will discuss our second quarter performance in more detail and address some topics we know are on the minds of investors. And I'll then close with a brief summary before we take your questions.

Our overall strategy remains straightforward, and we believe our people and culture are a source of competitive advantage. First, our business model is rooted in anticipating and addressing global trends that impact the way we live, work and move. We focus on delivering outstanding products and services in durable growing markets.

In our case, it's an orientation toward the importance of sustainability, enabled by technologies growing at exponential rates that will create new business models and sources of productivity in a world that will increasingly value the conservation of resources.

We excel at delivering energy efficiency and reducing greenhouse gas emissions, reducing food waste, preserving natural resources and generating productivity for our customers. It's what we do and it's what we're known for. We maintain a healthy level investment in our businesses to sustain leading brands, which are number one or number two in virtually every market in which we participate.

Second, we excel at delivering strong top-line incremental margins and free cash flow through our business operating system. Our business operating system is continuously improving and underpins everything we do and enables us to constantly generate high levels of free cash flow, which powers our dynamic capital allocation strategy.

Our strategy once again served us well in the second quarter. We followed our business operating system to achieve outstanding organic revenue growth of 7% and adjusted continuing EPS of $1.49, an increase of 8%.

We also expanded adjusted operating margin 40 basis points and generated $414 million in free cash flow. Our very strong revenue growth gives us great optionality to balance ongoing business investments for the long-term, with meeting or beating our more near-term 2017 financial commitments. The larger categories of business investment include channel, infrastructure and new product development that position us in a way to continually improve our competitive position.

In the second quarter, the company delivered strong top-line and bottom-line results. We realize continued strength in the Climate segment, which reported an organic revenue up high-single digits. Residential and North American Commercial HVAC led the company's growth. And as expected, we're also seeing steady and consistent improvement in our Industrial segment, which saw positive revenue growth and delivered strong margin expansion and order growth. This was the second consecutive quarter of organic revenue growth for Industrial, and it was also quarter marked by the launch of several product offerings.

Compression Technologies and Services, for example, launched another model in the next-generation R-Series compressor family this quarter, and its variable speed offering is up to 35% more efficient than the industry average. We just recently received external recognition with the Environmental Leader Product Award for advances made in energy efficiency with the next-generation R-Series line of compressors.

This is one great example out of the 16 new products we launched in the quarter that demonstrate the kind of innovative, advanced offerings we offer our customers to build on our leadership position for the long run. We enable our customers to be both environmentally responsible and productive at the same time, so customers are no longer obligated to choose one or the other.

Moving to slide four. We changed our format a bit from our traditional market view to a mid-year update that provides insights in how we're seeing the markets and our businesses now versus where we saw them when we provided our initial guidance in January. Based on the questions we received leading up to this call, we believe you'll find this approach to be valuable.

I'll touch on the primary areas that we've highlighted as areas to watch, so I'll keep it focused. It's not intended to be an update on every cut of the business here where we're seeing any element of change. So if we don't hit something here, we'll cover it in the Q&A session.

The first topic is volume and revenues, which have been stronger than expected. The North American and China Commercial HVAC and our North American Residential HVAC markets exceeded our initial expectations. Our North American Commercial HVAC Building Services business, for example, achieved record performance in Q2, with its highest revenue recorded and 9% revenue growth.

Combined with the market share gains we've enjoyed based on our product and service leadership and sales excellence, all critical components of our business operating system, we're seeing very strong revenue growth. While we see the potential for growth to moderate in the second half of the year, we forecast that we will continue to exceed our initial plan for the year. On an equally-positive note, with Industrial, we're tracking to exceed our annual revenue plan there, too.

The next topic is the price-to-material inflation spread. Well before 2017 kicked off, we highlighted that we expected 2017 to be in an inflationary environment and that historically we've been able to achieve a positive price/material inflation spread of about 10 basis points to 20 basis points. As we moved through the first quarter, the environment became increasingly inflationary, but still looked manageable to a 10-basis point positive spread if cost and pricing held steady. As we moved through the second quarter, material cost inflation has continued to persist and it's moved beyond steel and Tier 2 materials to all metals and into refrigerants.

Because our volumes have exceeded our expectations, which we're pleased about, we're purchasing a higher percentage of commodities at current prices versus locked prices, resulting in more inflationary headwinds. We did achieve a positive price-to-material inflation spread in our Industrial segment and within our Residential business, as well as in Transport in the second quarter. Our price-to-material inflationary headwind was in our Commercial HVAC business, and mainly this was centered in the Asia, Middle East and Latin American regions.

Looking forward, it's important to note that we continue to expect to get positive price as we did in the second quarter. In fact, we expect to realize higher pricing as compared to last year, and we believe this will continue through the balance of the year. However, we are planning around the assumption that price realization will be below our prior forecast in the second half. We believe it's prudent to plan for a negative price-to-material cost spread similar to what we saw in the first half of the year, and this was built into our updated guidance for approximately $4.50 a share.

The fourth topic is relative to our Transport business. At the beginning of the year, we indicated we believe the durability and diversity of the business would enable us to maintain modestly down revenues and margins based on expected declines in the North American trailer market, and this has not changed. But the way we believe we'll get to the same result is a bit different. We're seeing modestly better results in North American trailers and softer results in our European trailer business, as well as strong auxiliary power unit bookings, as well as truck unit bookings and revenue. So in all, this is netting out to a relatively unchanged outlook for the Transport business.

The next topic is foreign exchange. Generally speaking, the dollar has been weaker than we originally forecasted, which has largely closed the gap between our reporting results and our organic results, which is a benefit to us. It's meaningful to remember that operating margin and currency translation historically flows through the P&L at a rate approximately half of what we pull through from operations. So overall, this is creating a modest impact to our leverage rates, primarily on euro-based revenues.

Netting out all of these updates, strong revenue and share gain combined with positive price and productivity has enabled us to not only cover the cost of material inflation and other inflation, it's also enabled us to maintain high levels of investment in our business, which helps us maintain our momentum over the long term. We expect that we will grow our business and expand margins again in the back half of the year, which gives us more confidence to raise our full-year guidance to the high end of our previous range with the same expectation of generating cash equal to or greater than net income and returning significant cash to shareholders via dividends and share repurchases and pursuing accretive M&A where we can create value.

The future is very bright, and we're excited about the opportunities that lie ahead in 2017 and beyond. I hope that this has given you some important insights into how our outlook has evolved through the midpoint of the year.

And now I'd like to turn the call to Sue to discuss the first quarter in more detail.

Susan K. Carter, Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

Thank you, Mike. Please go to slide number five. I will begin with a summary of main points I'd like you to take away from today's call. As Mike discussed, we have exited the first half of 2017 on a strong note, with continued strong financial and operational results. First half bookings growth, organic revenue growth, adjusted operating margin improvement, adjusted earnings per share growth and free cash flow are all on track or ahead of expectations at this stage in the year and give us confidence in raising our revenue growth, adjusted earnings per share and free cash flow guidance.

Our bookings and revenue performance were strong, with growth in both segments. Climate organic bookings and revenue were up 3% and 8%, respectively. Residential HVAC led the way, with high-teens growth in bookings and revenues and improved operating margins. Commercial revenues were also healthy, up mid-single digits.

Our Industrial segment continues on a path of steady improvement, with strong bookings growth, revenue growth and a 250-basis point improvement in adjusted operating margins. Excluding capitalized costs related to new product engineering and development of $8 million, or 1.1 percentage points, that were reclassified to the income statement in the second quarter of 2016, margins expanded by 140 basis points. These solid results give us further confidence in our full-year guidance for the segment.

In January, we laid out our capital allocation priorities for 2017, including spending approximately $410 million on dividends and an additional $1.5 billion on a combination of share buybacks and acquisitions. Year-to-date through today, we've spent $667 million on share buybacks and $205 million in dividends. We've also spent approximately $65 million on acquisitions. We are continuing to follow the dynamic capital allocation plan we announced in January.

Please go to slide number six. Focused execution of our business strategy underpinned by operational excellence drove strong year-over-year financial performance. Net revenues increased 7% organically, adjusted operating margins improved 40 basis points and adjusted earnings per share was higher by 8%. Robust revenue growth, positive price and productivity enabled us to more than offset increased materials inflation pressures from metals and refrigerants while maintaining a healthy business investment.

Please go to slide number seven. Organic orders were strong in the second quarter, up 4%, with increased activity in both our HVAC and Industrial businesses. We drove particularly strong growth in Residential, up high-teens, driven by a robust market and continued market share gains. Organic Commercial HVAC bookings were down low-single digits, impacted by a tough comparison to prior year when we booked a very large order in the North America Commercial HVAC contracting business. Excluding this order, North America bookings would have been up 4% in the second quarter.

Outside of North America Commercial HVAC, organic bookings were broad-based with high-single digit growth in EMEA and Asia. Transport organic bookings were up low-single digits, with gains in North America, EMEA and Asia. Our diversification strategy enabled us to offset the decline in trailers through growth in worldwide truck, aftermarket and APUs in the quarter.

Industrial organic bookings were up 5% in the quarter, led by strength in Compression Technologies and Fluid Management. Regionally, North America and Europe were flat, while we had strong growth in China, India and the Middle East and Africa.

Please go to slide number eight. In our Climate segment, organic revenue up low-teens in both North America and China. Applied was up high-single digits and Unitary and Aftermarket were both up mid-single digits. In our Industrial segment, overall organic revenue was up 2%, led by high-single digit growth in North America and low-single digit growth in Asia. In our Compression Technology business, North America was up low to mid-teens in both equipment and parts and services, and Asia also delivered strong equipment growth, up high-single digits. Overall, North America revenues were up low-teens and International revenues were flat, netting 7% organic growth rate for the enterprise.

Please go to slide number nine. Q2 adjusted operating margin improved 40 basis points, primarily driven by strong volume, productivity and price, partially offset by material and other inflation. We continue to invest in the business. For Q2, approximately 40% of our investments were in new product development, 40% in channel optimization programs and 20% in OpEx on process and productivity-related projects to further improve our long-term competitive positioning.

Please go to slide number 10. Overall Climate performance was strong in the quarter, with organic revenues up 8% and an adjusted operating margin of 16.8%. Strong revenue growth in both Commercial and Residential HVAC was partially offset by modestly lower Transport revenues. Climate adjusted operating margin was down slightly year-over-year. Significantly higher revenues, productivity and price were offset by headwinds from material inflation and a lower product mix of higher-margin Transport revenues.

Please go to slide number 11. Our Industrial segment continues to show steady improvement in second quarter. In addition to organic bookings growth of 5%, the business drove organic revenue growth of 2% and adjusted operating margin improvement of 250 basis points. Our continued focus on improving the fundamental operations of the business through commercial focus on aftermarket, operational excellence initiatives and cost reduction measures is delivering tangible results.

Please go to slide number 12. Free cash flow was $414 million for the second quarter, driven largely by strong profits. Working capital as a percent of revenue for the quarter improved 50 basis points versus the second quarter of 2016. Year-to-date free cash flow is $340 million. Our guidance for free cash flow has been raised to approximately $1.2 billion, which is the high end of our previous range, reflecting continued expectations for free cash flow to be equal to or greater than net income. Additionally, our balance sheet continues to strengthen, which provides optionality as our markets continue to evolve.

Please go to slide number 13. Continued strong cash flows in 2017 enables us to drive a dynamic capital allocation strategy, employing capital where it earns the best returns. In January, we laid out our 2017 capital allocation priorities, and they remain unchanged. Our first priority is continuing to make high ROI investments in our business. These include investment in innovation and in strategic growth programs. These ongoing investments are at the heart of our innovation, growth and margin expansion story, and our performance demonstrates our strategy is delivering results.

The secondary is maintaining a strong balance sheet. We're BBB rated today and believe this is the appropriate structure for the company at the present time. The third area is our commitment to paying a highly competitive, reliable dividend that grows at or above the rate of earnings growth over time. We've paid an annual dividend for 106 years and have consistently raised this dividend over the years. In fact, the compound annual growth rate of our dividend is 20% over the past five years.

The fourth priority is strategic acquisitions and share repurchases. In January of this year, we committed to spend $1.5 billion between these two areas, and year-to-date we've spent approximately $667 million on share repurchases and approximately $65 million on acquisitions. We intend to spend the balance of the $1.5 billion during the remainder of 2017. Our pipeline of actionable and available acquisitions is approximately $300 million to $500 million at any given point in time. We will continue to create long-term value for our shareholders through a dynamic capital allocation strategy, as we have consistently done for years.

Please go to slide 15. Our strong first half financial performance gives us confidence in raising our 2017 adjusted continuing earnings per share guidance to the high end of our previously communicated range of approximately $4.50 per share. We have also raised our organic revenue guidance for the year from approximately 3% to approximately 4.5%, reflecting very strong revenues in the first half and expectations for continued healthy market growth and share gains in the second half. By segment, we expect climate organic revenues to be up approximately 5.5% and industrial organic revenues to be flat, both reflecting improvements versus our prior guidance.

Please go to slide number 16. This slide lays out our updated guidance versus our prior guidance in more detail. I'd note that our free cash flow guidance has been raised to approximately $1.2 billion, which is the high end of the previous rage, reflecting continued expectations for free cash flow to be equal to or greater than net income.

Please go to slide 18. We've received positive feedback on the section covering key topics we know are of interest to you in our prepared remarks, so we'll cover a few such topics on the next couple of slides, similar to what we've done in recent quarters. The first topic is the expected impact of currency on our 2017 guidance. For the full year, we have been expecting roughly a $0.10 impact from a strengthening dollar primarily against the euro. At this point in the year, we're not expecting the dollar to strengthen as much as previously forecast, which has improved our currency impact from negative $0.10 to about a negative $0.02. We also expect currency to have a minor impact on revenues, which is reflected in our revised guidance.

The next topic is our second quarter Climate segment leverage, which was lower than you might expect on the strong revenues we delivered. The primary factors impacting leverage in the second quarter in the Climate segment were: persistent material cost and other inflation, unfavorable product mix from a lower mix of Transport revenues, which carry relatively higher margins compared to the other Climate business, and lower overseas margins than expected, primarily tied to lower revenues. It is important to note that we continue to expect to see margin expansion in Commercial in the second half of 2017, and this is embedded in our guidance.

Please go to slide 19. The last topic for today is the non-cash, non-economic negative discrete tax item of $33 million, or negative $0.13 earnings per share, we laid out in our earnings release this morning. This charge is related to the impairment of deferred tax assets, primarily net operating loss carry-forwards in Latin America. It is important to note that while these assets are impaired, the net operating loss carry-forwards remain available for future use if profitability exceeds our current projections, so there's no current or future cash or economic impact to the company.

I'll now turn it back to Mike for closing remarks.

Michael W. Lamach, Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Thank you, Sue. So in closing on slide 20, we are executing our 2017 plan and building a thriving, more valuable Ingersoll-Rand. I'm proud of our employees who successfully executed our strategy and delivered another strong financial and operational quarter for the company. We expect to see continued top-tier revenue and operating margin improvement in the back half of the year.

Our robust revenue and booking performance gives us the optionality to make continued investments in the business to further improve our competitive positioning for the long run, while at the same time raising our financial targets for 2017.

To summarize, our Climate segment remains strong, led by our Commercial and Residential HVAC businesses, which are focused on growth areas, with equipment, controls and service. Our Transport Refrigeration business is diverse and agile and will execute their strategy as they typically do. Our Industrial business is on track and is delivering steady, consistent improvement. We have a tremendous depth of talented people and our culture remains as strong as ever. And taken together, I'm confident that with this formula, we'll continue to deliver top-tier financial and operating performance.

And with that, Sue and I will now be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from Nigel Coe from Morgan Stanley. Your line is open.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Thanks. Good morning.

<A – Mike Lamach – Ingersoll-Rand Plc>: Good Morning, Nigel.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Hi, Mike. So the tone on price/cost definitely changed since the mid-May timeframe at EPG. So I'm wondering, has there been deterioration in the price environment? I understand you talked about it's rest of world Commercial, but has there been deterioration in the price environment since that point?

And on that topic, are you building a Section 232 impact into the second half of the year into your guidance?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, I'd start by saying, Nigel, that as far as price goes, most competitive pricing is happening where you've got overcapacity of OEMs in areas like China, or there's some economic difficulty, like the Middle East or Latin America. So pricing there is definitely more difficult.

We've watched inflation persist. We've watched it move into refrigerants, as an example, into the second quarter. The volumes that we delivered were much higher than the volumes that we had forecasted, so we ended up in the spot market to a much greater extent than we did the hedged view of the world.

So our outlook for the back half of the year now looks a lot like the first half of the year. We would expect sort of a 50 basis point, 40 basis point, 50 basis point negative spread. So we think we're not expecting any more price. It's about the same amount of price we got in the first half of the year, and a fairly conservative view around where we think the direction of material inflation goes.

We're still going to raise margins in the back half of the year, and we're going to do that and still continually invest in the company. And Climate would be a great example, that even where it's holding through that, price/material inflation spread is the same as the back half of the year. The investments are about twice the rate they were in the first half of the year.

So I think the formula for continuing to invest in growth and invest in productivity is just another area of the income statement for us to attack as we would normally do, not just the price/material inflation piece of the P&L.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Okay.

<A – Sue Carter – Ingersoll-Rand Plc>: And, Nigel, if I could add just a few things to what Mike said and then I'll get to your follow-up question. So the answer to your question on whether we've seen more inflation in commodities than what we expected for 2017 is a definite yes. And that inflation has come from steel, it's come from copper turning from what we thought was a slight deflation for the year to an inflationary metric. Aluminum has been slightly inflationary and refrigerants have also been inflationary for the year. And, in fact, refrigerants represent about 10% of our inflationary pressure for the year.

Another thing that I would tell you, though, is that with the volumes that we've had in 2017 to-date, the increase also reflects some of the volumes that we've had where we've had to go out and buy at spot. So it's a good problem and it's a great thing, but it has caused us increased inflationary pressure.

And I would add just one more point on what Mike talked about with the Commercial HVAC regions, where we're seeing not only pricing pressure, but also inflationary pressure with Asia, the Middle East and Latin America. These are some of our best businesses at managing the total P&L and productivity. So while these businesses are causing us some pressure on price/cost, they also do a pretty good job of delivering their commitments by working the entire P&L. And I think that's what we'll continue to do as a total company for the remainder of the year.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Okay. Great. That's helpful. And then as a follow-on, just the North American Commercial, I think we understand the comp issue. But maybe just dig into the verticals in terms of where you're seeing the underlying strength and weakness. And specifically, we are picking up some signs of a slowdown in light commercial activity maybe on the tendering side. Are you seeing that, Mike?

<A – Mike Lamach – Ingersoll-Rand Plc>: First, Nigel, we forgot to answer your 232 question. Just really quickly on that. Steel prices for us are fairly well set now for the balance of the year. So between inventory and pricing that's out there that rolls through the balance of the year, we think we've got steel fairly well set in terms of our outlook for the balance of the year.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Okay. Okay.

<A – Mike Lamach – Ingersoll-Rand Plc>: Now going to markets, our view all along is that at some point you would see a positive but declining growth rate in the overall Unitary market, particularly as it relates to commercial buildings. And I think that that is definitely still our outlook for the back half of the year. But offsetting that, we still think that we're more in the early innings of the Applied business in the Institutional markets and still have a nice pipeline moving through 2018 in that regard.

<Q – Nigel Coe – Morgan Stanley & Co. LLC>: Okay. I'll leave it there. Thanks a lot.

<A – Mike Lamach – Ingersoll-Rand Plc>: Thank you.

Operator: Your next question comes from Andrew Kaplowitz of Citi. Your line is open.

<Q – Andy Kaplowitz – Citigroup Global Markets, Inc.>: Hey. Good morning, guys.

<A – Mike Lamach – Ingersoll-Rand Plc>: Hi, Andy.

<A – Sue Carter – Ingersoll-Rand Plc>: Good morning.

<Q – Andy Kaplowitz – Citigroup Global Markets, Inc.>: Mike, so Industrial order growth was plus 9% in Q1, plus 5% in Q2. Revenue growth was also positive in both quarters. We know you want to be conservative, but why would organic revenue growth year-over-year just be flattish? I think we understand that some of the orders you're getting are for your large long-lead compressors that won't impact 2017. But is there something else you're seeing in the Industrial business that keeps you conservative about your forward forecast?

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, for me, no. It's really looking at those large orders and the timing of that, and then just looking at customer deliveries. So we had, really, a pleasant surprise in the first half of the year that the book-and-turn business was better than we had anticipated. And we saw it across the board in Power Tools, Fluid Management, even the Consumer Vehicle and Club Car. So, there could be upside to that number if the book-and-turn continues at the same rate. But what really drives the big revenue for us are the bigger projects, and we've got those scheduled out pretty tightly.

<Q – Andy Kaplowitz – Citigroup Global Markets, Inc.>: Okay. That's helpful, Mike. And I wanted to follow up on the Commercial HVAC orders that Nigel talked about. What was your internal expectations for the quarter? And then, how are you thinking about orders for the rest of the year? You mentioned the improvement in Applied. Does that accelerate as the year goes on? How should we look at that?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, we did great in the quarter. If you look back all last year, I think our bookings growth was double-digits. So we're really coming off tough comps. What you're really seeing here is last year at the same time we booked $100 million-plus single contract, and we have those in the pipeline, but you can't predict exactly when they're going to fall. We don't bake the business around it. We don't determine our cost structure and investment schedules around whether or not that stuff comes or goes.

But the markets have been strong. They remain strong. The share data remains in our favor universally across all product categories, certainly in service, and across the globe. So we're happy with what's going on. We invested in growth and we feel like we're getting it, Andy. So I'm as optimistic as I was coming into the year about the back half of the year in our Commercial HVAC business.

<Q – Andy Kaplowitz – Citigroup Global Markets, Inc.>: Okay, Mike. That's helpful. Thank you.

Operator: Your next question comes from the line of Joe Ritchie from Goldman Sachs. Your line is open.

<Q – Joe Ritchie – Goldman Sachs & Co. LLC>: Thanks. Good morning, everyone.

<A – Mike Lamach – Ingersoll-Rand Plc>: Hi, Joe.

<A – Sue Carter – Ingersoll-Rand Plc>: Morning.

<Q – Joe Ritchie – Goldman Sachs & Co. LLC>: Hey. So maybe touching on pricing for a second, the 50 basis points of negative/price cost you expect to occur in the second half of the year. I guess one question is, what constrains you at this point from pricing further in order for that to narrow into the second half, knowing that commodity prices have increased?

<A – Sue Carter – Ingersoll-Rand Plc>: Well, again, I think, Joe, the tough part of all of this is really looking at we've got announced price increases out there. And what we're seeing move around is the inflation.

But we'll also continue to see the price/cost pressure in those regions of the world that we talked about, with Asia, the Middle East, actually it's specifically China, the Middle East and Latin America. So we don't expect that to go away and we don't expect it to be able to influence, again, our steel is locked in for the back half of the year. The majority of our copper is locked in. So we don't expect to be able to change that dynamic overall.

And so what we can do as a company when we look at that back half of the year and the price/cost spread is really just manage the entire P&L, make sure that we're really working on the productivity in the business, and you saw some of that in the second quarter, and also managing our costs in the right way.

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, Joe, remember, too, that every single part of the company, with the exception of Commercial HVAC, had price that exceeded material inflation. If you focus solely on Commercial HVAC, it's much easier to maintain that price/cost relationship in the Unitary business than, say, within the Applied business.

We're out pricing today, six, nine, 12 months out into the future. So if inflation shoots up dramatically, in the case of refrigerants as an example, which are used extensively in great volumes in Applied equipment, you're going to see that you didn't cover it. So it's really isolated to that Commercial HVAC business. But, again, to the markets that are most competitive and into larger equipment where you sometimes have a hard time getting in front of it when it moves up dramatically for really no reason.

<Q – Joe Ritchie – Goldman Sachs & Co. LLC>: Thanks. That's helpful color. Following up on that, Mike, you mentioned that that price was positive, really kind of across the portfolio, with the exception of Commercial HVAC. If you were to maybe give us a little bit more color on 2Q, specifically around the incremental margins within Climate, so specifically on Commercial HVAC, Residential and Thermo King, how did the incremental margins look for those different pieces of the business within the quarter?

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, it would have been the highest in Residential, where we are expanding margins, I think, dramatically there, and lowest in the Commercial HVAC business, where in parts of the world you might have had deleverage on growth, growth and volume with deleverage again. This would be areas, I'm thinking about China, parts of the Middle East where that would have happened.

And then within the TK business, we would have seen even a mix swing where most of the growth in Europe happened in Eastern Europe, not in Western Europe. So you end up with a little bit of a regional cut there, which hurts things.

Sue, do you have anything you want to add to that?

<A – Sue Carter – Ingersoll-Rand Plc>: Yes. And I think that's exactly right, is that the top incremental leverage came out of the Residential business, followed by Commercial, North America and EMEA, and then offset by some of those areas where we've talked about that price/cost was definitely an issue.

And then to Mike's point on TK, we did have a mix down in – first of all from TK, which generally has higher margins than the other Climate businesses, but also from some of their European sales, which were lower-margin type of sales and not in the truck and trailer, where we've got great margins. So just a temporary mix down on TK.

<A – Mike Lamach – Ingersoll-Rand Plc>: Joe, one thing too, it's just interesting that we were talking about was if you look at the Parts business specifically, the Parts business is actually growing, but quite slowly, just above low-single digits, really low-single digits. And you're seeing just a ton more replacement, whether it's on the Residential side or even on the Commercial side of the business, where high-margin parts business people are replacing rather than repairing. That's happening across the portfolio, too.

<Q – Joe Ritchie – Goldman Sachs & Co. LLC>: Helpful. Thanks, guys.

<A – Mike Lamach – Ingersoll-Rand Plc>: Sure.

Operator: The next question comes from Steve Tusa from JPMorgan. Your line is open.

<Q – Steve Tusa – JPMorgan Securities LLC>: Hey, guys. Good morning.

<A – Mike Lamach – Ingersoll-Rand Plc>: Good morning, Steve.

<A – Sue Carter – Ingersoll-Rand Plc>: Morning.

<Q – Steve Tusa – JPMorgan Securities LLC>: So, if you roll on a 12-month basis, the Commercial HVAC orders, you're in that mid to high-single digit range. I know you've talked about a slowing, given there is I would assume a longer lead time on some of these bookings in Commercial HVAC. Any color on kind of whether this quarter is a true break in the trend, or should we expect given that maybe it's an easier comp in the third quarter because of a large deal? Maybe there weren't large ones? Maybe there were? Maybe you could clarify that. Should we be back in that 4% to 5% perhaps mid-single digit type of range in orders in the third quarter for Commercial HVAC?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, I think the market is actually going to grow in that mid-single digit range. So that's the market in North America as it stands. Again, I can see slower Unitary growth and accelerating Applied growth, with the wild card being these larger energy services projects that we do at times that can impact the data. So the mid-single digit growth rates, say a healthy growth rate. And if you can do any better than that, you're probably gaining share.

<A – Sue Carter – Ingersoll-Rand Plc>: And, Steve, we did have one of the contracting bookings in the third quarter of 2016 also. It was about half the size of the one in Q2, but it was still good size. So you'll have a little bit of a tough compare. But as Mike said earlier, we'll have tough compares on the Commercial HVAC bookings all year.

<Q – Steve Tusa – JPMorgan Securities LLC>: Right. But the quoting activity is holding up okay I guess is the messaging?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yes. Particularly on the Applied side. Institutional side, absolutely, yes.

<Q – Steve Tusa – JPMorgan Securities LLC>: Okay. So if you look at the margin bridge for the second half you talked about, or at least for the year now to reset us, you said basically the rest of the year is going to look a lot like 2Q. So in the back half of the year up roughly 40 basis points. Is that the right way to look at it?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, that's exactly right.

<Q – Steve Tusa – JPMorgan Securities LLC>: Okay. And then in the fourth quarter you had it wasn't like the greatest margin performance on the planet. I think they were down. And you did have some inflation kick in in the fourth quarter. It was a 40 basis point headwind. Why wouldn't that comp get a little bit easier, or is that just timing of raws coming in?

And then why are you not getting more price in the second half? You said you're going to put some things through. Is it just those markets are too tough in International Commercial?

<A – Mike Lamach – Ingersoll-Rand Plc>: Second half investments are about twice the rate of the first half investments we're making. We're really trying to set up 2018 and beyond, Steve. So really on the margin side, we could certainly squeeze more leverage out if we took that down. But we think we've got good ideas and good projects to do that.

Sue, other part of the question, anything you want to add there?

<A – Sue Carter – Ingersoll-Rand Plc>: Yeah. So you're right, Steve, as you get into the fourth quarter, the comparisons on price/cost start to lap themselves, because that was the first quarter that we saw the negative impact in 2016. But for the entire year, which was the guidance we gave in the prepared remarks, we still expect to be down about 40 basis points for the year based on what we've seen in the first half and then what we're projecting for the second half.

<Q – Steve Tusa – JPMorgan Securities LLC>: Okay. Great. Thanks a lot.

Operator: Your next question comes from Julian Mitchell from Credit Suisse. Your line is open.

<Q – Julian Mitchell – Credit Suisse Securities (USA) LLC>: Hi. Good morning.

<A – Mike Lamach – Ingersoll-Rand Plc>: Good morning, Julian.

<A – Sue Carter – Ingersoll-Rand Plc>: Morning.

<Q – Julian Mitchell – Credit Suisse Securities (USA) LLC>: Morning. Just a question on the productivity and other inflation line within the margin bridge. Maybe just give us a sense of where you stand on the outlook for that. That had been a very big margin driver 2014 and 2015, sort of flattened out last year, back to being a good tailwind this year. So is that sort of 60 bps, 70 bps range what we should expect in the second half, or are you thinking about trying to step that up to offset potentially a price material headwind that could last sometime into next year?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, total productivity steps up in the back half of the year for sure, and that's programmed in. So those are projects that are in flight. So I feel that's near-in for us, a quarter or two out to go look at that. That's certainly part of how we're trying to ensure that we still grow the operating margin in the back half of the year, and again sort of 30 basis points to 50 basis points for the full year as well. But that's a good pick-up, Julian. That's exactly right.

<Q – Julian Mitchell – Credit Suisse Securities (USA) LLC>: Thank you. And then just a follow-up on my second question would be on the Industrial business. Very good margin performance in the first half. Guidance suggests a flattening out in the second half. So was there any kind of big timing of productivity efforts or particular mix tailwinds you had in Industrial in Q2 or the first half that you think doesn't sustain into the back half? Or is the margin guide in that division really heavily in the context of, look, you've had a few tough years there and don't want to get ahead yourselves on the recovery in margins?

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, price/volume mix was all a little bit better than what we had thought. So that was certainly positive. But there's been a lot of productivity work over the last 18 months, two years in that business and we're seeing some of highest productivity now in the company coming through as a result of that. Some of that has been restructuring. And other elements have just been changes to the business model that we've made. So it's been excellent performance to-date.

We think it'll continue, but what's a bit of a wild card is just where volume settles out for the back half of the year in terms of how much we can actually shift in the back half of the year.

<A – Sue Carter – Ingersoll-Rand Plc>: And we did, Julian, in 2016 we did see the margins start to improve in the back half of the year in Industrial. So, again, the first half comparisons are going to be a little bit easier than the second half comparisons. But as I look at every line item for the business, they're continuing to improve in the second half of the year all the way down the P&L. So I think the business is doing exactly what we expected and want it to do in 2017.

<A – Mike Lamach – Ingersoll-Rand Plc>: And I've got a lot of just personal confidence in the way that that team is executing, too, Julian. They're delivering on exactly what was committed to in our May Investor Day. And as I sit through the operating reviews, you just see the cadence there and the delivery has been commensurate with that.

<Q – Julian Mitchell – Credit Suisse Securities (USA) LLC>: Great. Thank you.

Operator: Your next question comes from Andrew Obin from Bank of America Merrill Lynch. Your line is open.

<Q – Andy Obin – Bank of America Merrill Lynch>: Yeah. Good morning. Can you guys hear me?

<A – Mike Lamach – Ingersoll-Rand Plc>: Hi, Andy. Yeah.

<A – Sue Carter – Ingersoll-Rand Plc>: Yes. Good morning.

<Q – Andy Obin – Bank of America Merrill Lynch>: Yes, I just wanted to understand a little bit of volume mix in the second half. I guess if I look at the FX benefit for the second half and if I overlay it with your commentary on pricing, I think FX offsets most of the pricing drag. And I just want to understand the leverage in the second half just a little bit better. I know you said there's some uncertainty about volume. Is that what's driving it, or are you just being conservative on operating leverage? I just want to understand that.

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, the leverage is not that different than the first half. It's marginally better in the back half than in the front half. But the largest difference really is in the investments area where, again, it's about twice the rate as the first half.

<Q – Andy Obin – Bank of America Merrill Lynch>: Gotcha. That makes sense. And just a question on pricing. I think one of the themes this earnings season was that some deflationary pricing in distribution channel from online. I know that online is starting to make inroads on Residential side. What has been your experience with pricing on the Residential side in the U.S. as online is growing?

<A – Mike Lamach – Ingersoll-Rand Plc>: So far so good. If you remember, in May we talked about one of the things that consumers really asked for was more transparency in pricing. And so we launched and were first to launch now nationally a model where we've worked with our dealers to be able give homeowners a fairly tight range of what an installed system would look like. And we're seeing uptake on that from the web. We're seeing close rates that are well above what they were in the conventional way. So, look, I think that simplifying the consumer experience and being more transparent around that is a good thing and it's something that we intend to lead and/or participate in with other leading companies that think that way.

<Q – Andy Obin – Bank of America Merrill Lynch>: Terrific. Thank you.

<A – Mike Lamach – Ingersoll-Rand Plc>: Thank you.

Operator: Your next question comes from Robert Barry from Susquehanna. Your line is open.

<Q – Robert Barry – Susquehanna Financial Group LLLP>: Hey, guys. Good morning.

<A – Mike Lamach – Ingersoll-Rand Plc>: Hey, Robert.

<A – Sue Carter – Ingersoll-Rand Plc>: Good morning.

<Q – Robert Barry – Susquehanna Financial Group LLLP>: Just a follow-up on the price question. I understand the international dynamic in Applied, but why not go for a meatier price hike in Resi, especially since the market there seems so strong?

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, Resi is covering material inflation and expanding margins, and we're growing share. I wish we would have got 20 basis points more of growth. We could have said it was 20%. We had a heck of a good quarter. I don't think we need to do anything different there other than continue to do what we're doing and execute the way we've been executing. So I feel like that's in good shape and I think the industry is in good shape.

<Q – Robert Barry – Susquehanna Financial Group LLLP>: Gotcha. And then just on the investments, 2x I think you said in second half. But if inflation continues to track even higher, outside of steel, which sounds fairly locked in, what are the thoughts on flexing some of that up or down versus accepting some lower margin near-term?

<A – Mike Lamach – Ingersoll-Rand Plc>: I think we need to manage the whole income statement to deliver on the commitment we gave at the beginning of the year. So we're halfway through the year. We're now at the top end of our guidance range, which is a good thing. And as long as we've got good investments for the long run, we're going to make those investments.

I think it's happened to us before, where the fourth quarter rolled around and there was an opportunity to do something good for the business in the long run, and we've done that. We're not going to sacrifice a quarter to make a consensus number, that's for sure. But we are going to go deliver on the commitments we've made, which we're doing this year and hopefully we can top those.

<A – Sue Carter – Ingersoll-Rand Plc>: And, Robert, I would add that one of the things that I think we do a good job of and are putting some tools into actually continue to improve on the investment, is we look at the investment versus the financial criteria and the returns that they're going to give to us, not necessarily their impact. It does factor into the P&L, and we're very conscious of that. But we're looking at each of the projects for how it fits into the strategy and what kind of returns it's going to bring over the 2020 guidance that we gave at our Investor Day.

So I think that's something we do very well and we're very conscious of how that all fits together. But it isn't just a look at the P&L; it's also a look at strategy and the longer-term plan that goes along with that. So I think we do that pretty well.

<Q – Robert Barry – Susquehanna Financial Group LLLP>: Fair enough. Thank you.

Operator: Your next question will come from Tim Wojs from Baird. Your line is open.

<Q – Timothy Wojs – Robert W. Baird & Co., Inc. (Broker)>: Hey, everybody. Good morning. I just had a clarification and then a question. Just on the share repurchase and the acquisition activity, the $1.5 billion you talked about for this year, I just wanted to clarify that only the year-to-date numbers are actually in guidance.

<A – Mike Lamach – Ingersoll-Rand Plc>: Yes, the year-to-date is where we were as of today in terms of share buyback. The acquisitions of $65 million is where we are in terms of buyback. The $1.5 million is still the commitment on total deployment. The $300 million to $500 million of actionable and affordable M&A is still what we're looking at. Although there's been changes within the pipeline, it's still $300 million to $500 million.

If I snapped a line today as compared to last quarter, I'd tell you that the biasing would be much more close to the $500 million than it would the $300 million. That would be really the update I'd give you here.

<Q – Timothy Wojs – Robert W. Baird & Co., Inc. (Broker)>: Okay. Great. Then on Thermo King, you've actually seen order growth in two of the last three quarters. And so is that business really at a bottom in your eyes? And against easier comparisons in the back half of the year and into 2018, can we actually start to see growth accelerate now in that business?

<A – Mike Lamach – Ingersoll-Rand Plc>: Well, it's a very diverse business. You have to think about what part of Thermo King are you talking about. And what we're seeing right now is really excellent growth in areas like auxiliary power unit bookings, or in total aftermarket or in the total truck business. So remember that TK is not just a trailer business, but it's a Class 3 through 7 truck business. And that business is up high-teens for us, the truck business. We've got other in there, which is bus, rail and air.

So there are a number of positives. And, again, you're comping at a little better. It's just a touch better North American market than we thought, a weaker EMEA than we thought, particularly Western Europe. A stronger Eastern Europe than we thought. Net, we're just slightly right on, slightly above where we thought we'd be for the total year.

<Q – Timothy Wojs – Robert W. Baird & Co., Inc. (Broker)>: Okay. Great. Good luck on the second half.

<A – Mike Lamach – Ingersoll-Rand Plc>: Thanks.

Operator: Your next question is from Robert McCarthy from Stifel. Your line is open.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: Good morning. Mike, I'm going to skip the break-up question.

<A – Mike Lamach – Ingersoll-Rand Plc>: Good, Robert.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: I figured you had enough of that one. Maybe a history lesson though in terms of bookings. Obviously, you've rejiggered the presentation effectively this quarter. Just a context around the commercial bookings maybe first half of this year, what would the overall growth and complexion would be? Because I hate to be pedantic or didactic, but you had a very tough compare 1Q last year. Incredible growth. So just maybe some clarity around the first-half bookings to underscore the strength there.

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, quarter one you had high-single digit global Commercial HVAC bookings. Quarter two, pull out a $111 million single contract, you're up at 4.5% growth in quarter two. And then, look, the outlook for the balance of the year continues to be strong against tough comps.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: 1Q 2016, you had pretty explosive Commercial bookings, as I recall. It was in that 15% to 20% range, if memory serves, right? In North America.

<A – Mike Lamach – Ingersoll-Rand Plc>: Quarter one 2016. But, yes, as you got into North America, you got into a 12% growth number compared to quarter two of last year. So that's probably what you're thinking about is the 12% from last year in quarter two in North America.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: Yeah. No, I think good performance on very tough compares. And then could you just comment a little bit about the volume assumptions you did have with respect to commodities? I mean, how did you outperform there in terms of what your volume assumptions were for the quarter versus what actual volumes were? Any kind of complexion around that?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, Robert. I would say to go through the whole business that way would be difficult to do it probably on a call. But, again, we didn't plan on roughly 20% Residential HVAC growth in the quarter. We didn't plan on the Commercial Unitary business delivering at the rates that it did. So the strategy there is working across our Commercial Unitary business. We're growing nicely there. The North America Commercial Unitary business in the quarter grew double-digit again.

So we weren't forecasting double-digit again off a double-digit growth prior year in the Commercial North America Unitary business. We're just seeing strong markets and well above our projections. The really exciting thing for me is that we were able to execute on that flawlessly. We took that volume, we worked with suppliers, we ran our operations in plants at meaningfully higher revenues than we had thought and executed well. The only downside to that was you're out in the spot market picking up steel, copper and aluminum. That's about it.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: And then finally, for 2018, thinking about the levels of investments that you've highlighted this year and, obviously, the price and material headwinds. If we go into 2018, obviously you're not giving guidance today, I understand that. But can we talk qualitatively about the factors that would suggest would you expect a return to kind of the incrementals on the Climate side of the house that we've expected to enjoy there if you see continued growth and we have a step-up in the spend? Or maybe you can comment on the R&D and overall investment spending you've been doing and whether it's going to level off in 2018.

<A – Mike Lamach – Ingersoll-Rand Plc>: The long-range plans for the business is going out three years and capturing 2020. If you look at the growth side, led by product growth teams, the answer that we're always – the question we're asking is what do we do to grow share and grow margins at the same time? And projects that qualify for that by teams that execute well are going to be approved.
So if you look at it from the growth side, the incremental investments look like the last three years. We still have good ideas to go execute.

On the productivity side, we're making sure that the productivity investments are sufficient enough to create a gap over other inflation, including wage labor. So that's the operating system. That's our model. That's how we look at this. As we look out, there's not a lot of difference about how you would model that for us. It'd be incremental investment for growth and it would be incremental investment in productivity to offset other inflation.

And then price material, whole different part of the operating system. This will be a tough year. It's a bit of an unusual year. But I just don't think long term that it's going to remain upside-down for us.

<Q – Rob McCarthy – Stifel, Nicolaus & Co., Inc.>: Congratulations on the quarter and the context of the continuing strong results.

<A – Mike Lamach – Ingersoll-Rand Plc>: Thank you.

Operator: Your next question comes from Jeffrey Sprague from Vertical Research. Your line is open.

<Q – Jeff Sprague – Vertical Research Partners LLC>: Thank you. Good morning.

<A – Mike Lamach – Ingersoll-Rand Plc>: Hi, Jeff.

<Q – Jeff Sprague – Vertical Research Partners LLC>: Hi. Lots of ground to cover here. Just a couple things. Mike, the growth in Building Services, does that reflect the beginning of the execution of the big projects you booked last year? And whether the answer is yes or no, are you building backlog in that business?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, the main area actually was in all of the other service areas. That would be everything from planned service to break/fix to smaller turnkey contracting. And that's the return on investment for the feet on the street for all of the controls, people we put out in the marketplace to sell, all of the service technicians that we've grown.

I want to say in North America, we're up 200 to 300 technicians, maybe more at this point, year-over-year. We're seeing industry-leading revenue per technician and margin per technician. So, again, it's a strategy of the business to continue to invest there at those higher margins.

<Q – Jeff Sprague – Vertical Research Partners LLC>: So on the bigger projects, you're not even really starting to see revenue on those? Correct?

<A – Mike Lamach – Ingersoll-Rand Plc>: Yeah, they're so long in nature and they are fairly linear in terms of how you execute something like that. Typically, if it's an 80-building project, you're doing that in phases and chunks. So it's squeezing its way through the income statement. And some of those projects were 24-month, 26-month, maybe longer, projects. So it happens over two years, two-and-a-half years.

<Q – Jeff Sprague – Vertical Research Partners LLC>: Just kind of a technical one for Sue. I think you said FX only kind of half the fleet average margin rate. That sounds a little atypical relative to other companies I cover. Is there something with hedges working against that or some other technicality that drives that phenomenon?

<A – Sue Carter – Ingersoll-Rand Plc>: No, actually it doesn't. What it really reflects is our in-region, for-region strategy. So in other words, your costs and your revenues are largely in the same currency. And so what that means is when you translate out the revenues, that you're really translating the income at the operating income level. So it includes the cost side of that versus just at the gross margin level. So a bit of a nuance, but nothing more than straight math.

<Q – Jeff Sprague – Vertical Research Partners LLC>: Okay. Thank you.

Operator: Your next question comes from the line of Josh Pokrzywinski with Wolfe Research. Your line is open.

<Q – Josh Pokrzywinski – Wolfe Research LLC>: Hi. Good morning, guys. Thanks for fitting me in here.

<A – Mike Lamach – Ingersoll-Rand Plc>: Hey, Josh.

<Q – Josh Pokrzywinski – Wolfe Research LLC>: I guess first question, Mike, on some of the big performance contracting orders that you booked last year that set up the tough comp, I'm to understand those are fairly lower margin relative to the base business. Does that show up in an easier margin comp somewhere along the way that we should keep in mind as well?

<A – Mike Lamach – Ingersoll-Rand Plc>: It shows up in lower gross margins. It should show up in contribution margin being about the same. So you tend to have all elements of cost set against that particular contract. So there's very little incremental. I mean, even the commissions and the sale are part of the cost structure of the contract. So we look at those to be accretive to the overall margins on a contribution basis. But it would put pressure on your gross margins for sure.

<Q – Josh Pokrzywinski – Wolfe Research LLC>: Is that something we lap here in the second half or is that just spread over multiple quarters?

<A – Mike Lamach – Ingersoll-Rand Plc>: It's a little bit to Jeff's question. When you book these things at the $100 million point, you're getting a quarter a point, where it can really move your comps on bookings. But if you take those projects, over 24 months, 30 months, you're really seeing the P&L impact in 24ths or 30ths over the course of that contract. So it's very much sort of diluted coming through the income statement over time. Does that help you at all?

<Q – Josh Pokrzywinski – Wolfe Research LLC>: Yeah, it does. That's helpful. To follow up on another one of Jeff's questions. On the currency front, a lot of companies we've seen have gotten pretty decent pricing over the last couple years in a stronger dollar environment. Is that some of what's going on with the tougher pricing environment internationally? Just maybe it's tougher to price through inflation given that you've already priced through currency? Is that dynamic playing out at all for you, or because it's purely translational that doesn't show up?

<A – Mike Lamach – Ingersoll-Rand Plc>: We tend to produce and sell in region at those currencies. We do very little exporting around the world in various currencies. The only exception to that is there's some Middle East orders that will come out of the U.S., as an example. But generally speaking, you're operating in the same currency. So, to us, it's much, much more translational than transactional.

<A – Sue Carter – Ingersoll-Rand Plc>: Right. And I think, Josh, when you think about it, in some of the areas that we've been talking about in the world, you're going to have a competitive pricing environment. So that's a given. And then you're going to be buying your raw materials in that region, again. So you're going to locally source in China or some of the other countries. So you're getting both ends of that dynamic, whatever the region is telling you. So it's not really a translational or FX type of activity. It's really if you're manufacturing in the region, you're going to get the full cost side as well as the full revenue side.

<Q – Josh Pokrzywinski – Wolfe Research LLC>: Understood. Thanks for the color.

Operator: We have reached the end of our question-and-answer session. I will now turn the call back to Mr. Nagle for closing remarks.

Zachary A. Nagle, Vice President-Investor Relations, Ingersoll-Rand Plc

Great. I'd like to thank everyone for joining us for today's call. We'll be available in the coming days and weeks for any follow-up calls that you might have and we look forward to connecting with many of you soon. Have a great day.

Operator: This concludes today's conference call. You may now disconnect.