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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to the Ingersoll-Rand First Quarter 2018 Earnings Conference Call. My name is Chris, and I will be your operator. The call will begin in a few moments with a speaker remarks and then a Q&A session. All lines are on mute. [Operator Instructions]

Thank you. Zac Nagle, Vice President of Investor Relations, you may begin your conference.

Zachary A. Nagle

Vice President, Investor Relations, Ingersoll-Rand Plc

Thanks, operator. Good morning and thank you for joining us for Ingersoll-Rand's first quarter 2018 earnings conference call. This call is being webcast on our website at ingersollrand.com, where you will find the accompanying presentation. We are also recording and archiving this call on our website. Please go to slide 2. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of federal securities law. Please see our SEC filings for a description of some of the factors that may cause 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 this morning's call are Mike Lamach, Chairman and CEO; and Sue Carter, Senior Vice President and CFO.

With that, please go to slide 3 and I'll turn the call over to Mike.

Michael W. Lamach

Chairman & Chief Executive Officer, Ingersoll-Rand Plc

Thanks, Zac, and thanks everyone for joining us today. Please go to slide 3. We're off to a strong start for the year. But before I get into the details, I'd like to begin the call with a brief review of the fundamental elements of our business strategy which drives long-term value creation for shareholders. The first element of our strategy is to continually deliver profitable growth through leadership positions and durable markets. Our end markets are underpinned by global megatrends such as sustainability, and the need to dramatically reduce energy demand and resource constraints in buildings, homes, industrial and transport markets around the world.

We focus on innovation and delivering the most reliable energy-efficient and environmentally-friendly products and services available, enabled by digital and other exponential technologies. We excel at delivering energy efficiency, and reducing greenhouse gas emissions, reducing food waste, preserving natural resources and generating productivity for our customers. We invest heavily in products and solutions to support our competitive edge here, and this continues to be a winning formula for us with our customers and our end markets. Our continued strong growth rates reflect that advantage.

We also take the same advice we give our customers seriously. In 2014, we publicly committed to increase our energy efficiency and reduce the greenhouse gas emissions related to our operations and products. The commitment includes a 35% reduction of greenhouse gas emissions from our own operations by 2020, which we achieved earlier this year, two years ahead of schedule. We conducted an energy audit of our own large facilities and upgraded air-conditioning systems, building controls and lighting, and eliminated energy leakage from our compressed air systems, while measuring validating, and reporting the results.

We are continuing to deepen our commitment with investments in renewable energy, both on-site at some of our large locations, and offsite through a power purchase agreement. We engaged our own Trane energy services business to provide a roadmap and how to be smarter about our energy purchases into organized investments that are responsible for the environment and good for our business. As it relates to energy efficiency and reducing greenhouse gas emissions, we're proud to be walking the talk. Second, our business operating system is designed to excel at delivering strong top line incremental margins and free cash flow over the long term.

Our business operating system underpins everything we do, and enables us to consistently generate high levels of free cash flow, which drives our dynamic capital allocation strategy. And finally, over the years we built an experienced management team and a high-performance culture which gives me confidence in our ability to deliver strong results consistently over the long term. As we consistently execute our strategy, we continue to build a stronger, more sustainable company for the long term, well positioned to deliver strong shareholder returns.

Moving to slide 4. I'd like to spend some time discussing how things are shaping up at this early stage in the year. It's important to note that given the seasonality of our business being heavily weighted towards Q2 and Q3, we are just a small fraction of the way into 2018. As I said earlier, we are off to a strong start and there are a lot of things that are going well. Our end markets are strong, and we are executing well as evidenced by our high levels of growth in both bookings and revenues globally in both our Climate and Industrial segments.

Our Industrial segment continues to make steady improvement ahead of our expectations. All the hard work our Industrial team has done to transform the business commercially and operationally and to restructure the business to take costs out of the system is paying off. The Industrial end markets are also showing steady signs of recovery which is positive. Our China direct HVAC sales strategy that we've been highlighting since early 2017 is performing as expected with continued exceptional growth in the marketplace and with improving financials. We're also seeing positive signs the North American Trailer market will likely perform better than most had anticipated entering the year, based on tight industry capacity, regulatory changes and U. S. tax reform.

Lastly, we're achieving positive pricing that is consistent with our expectations in targeted end markets to combat material cost inflation. On the other side of the ledger, material inflation across the industry and for Ingersoll-Rand is both volatile and persistent, and continues to be a headwind. We realized adjusted operating margin expansion of 20 basis points despite these increasing headwinds through strong volume and price. Commodity headwinds are broad-based across tier 1 and tier 2 markets and in freight where tight industry capacity is ratcheting up freight cost materially.

We're managing the entire P&L to drive margin expansion in 2018, and are taking decisive actions across volume, pricing, productivity and our cost structure to help mitigate further impacts from inflationary headwinds. There are also a few wild cards in play including potential tariffs, potential for trade wars, and significant geopolitical uncertainty that challenge visibility into full year 2018. On balance, while it's still very early in the year, our Q1 results and our positive outlook for the balance of the year are encouraging and gives us confidence that we are well positioned to exceed the top end of our annual guidance ranges on both revenues and earnings per share. We'll provide a detailed guidance update after we have a couple of quarters under our belt on our Q2 earnings call consistent with our guidance cadence.

Please go to slide 5. We've adopted a somewhat different format this quarter. We'll continue to provide transparency around the directional changes in bookings and revenue. Historically, the level of detail we provided combined with success of our strategic growth programs has offered a high level of specificity on our performance for investors but can create competitive challenges. Our intent is to provide additional insight into the key qualitative factors behind the numbers that are driving performance without providing a competitive roadmap. This format should provide investors a greater fundamental understanding of our business, which we believe is in the best interest of the company and our shareholders over time.

So the sell-side analysts out there that follow the company, we really aren't trying to drive you crazy, but we are trying to be pragmatic on how we run the business. In the first quarter, we drove positive growth in bookings and revenue across the board as indicated by the positive signs on the chart. Over the past few quarters, we have seen positive signs of a steady recovery in our Industrial end markets. Combined with continued healthy growth in the majority of our climate businesses globally, we saw positive growth across the board in the first quarter.

Please go to slide number 6. This slide provides insights and color into the key drivers behind the chart in slide 5, and how're thinking about the outlook for the year albeit still at a very early stage. In commercial HVAC, we're seeing positive growth in the markets globally with good growth in both equipment and services. North America growth was solid with gains in equipment, and particular strength in services, contracting and controls. Institutional growth was solid led by the education and healthcare markets. Europe, the Middle East and Africa commercial HVAC had solid growth across the board, and we saw additional growth in services from our rental service business, ICS Cool Energy, which we discussed on our fourth quarter 2017 earnings call, and closed early in the first quarter.

Our direct sales strategy in China is on track with our expectations where we're seeing continued strong revenue growth and expect improving financials in 2018. Our outlook for total commercial HVAC remains healthy for 2018, and key economic and market indicators largely support our view. Turning to residential HVAC, revenues were also strong with continued share gain. Our market-leading Trane Go, our online total installed pricing transparency tool that we referenced during our Investor Day last year, is delivering well against our expectations with significant growth in leads and high conversion rates from leads to sales.

Key economic indicators in this market also support continued growth through 2018, although we and the industry are lapping tough compares versus high growth rates in 2017. So that's an important factor to keep in mind. Transport continues to be a good news story for us. Our business remains diversified and resilient. We're also seeing improvement in the North American trailer outlook for 2018 fueled by tight shipping capacity, regulatory reforms and the benefit of the U.S. Tax Cuts and Jobs Act that allows for the immediate expensing of certain capital equipment purchases. We saw solid order momentum in quarter one.

APU growth remained strong. The marine market is showing considerable strength through the first quarter, although we have a relatively modest sized marine business. Bus and rail were mixed, again off a relatively moderate sized base for us. We're seeing continued solid growth in Europe, the Middle East and Africa truck and trailer. We built this into a nice size business for us over time. Overall, the transport market should be stronger than we originally expected in 2018, primarily led by improvements in North America trailer and continued solid performance elsewhere. Compression Technology services is seeing continued signs of an industrial recovery, consistent with industrial production and other key indicators.

Quarter one bookings and revenue growth was led by North America and China, with particular strength in services. For 2018, we expect to see solid growth in the majority of our markets and products. Small electric vehicle growth was healthy, driven largely by successful market penetration of our consumer vehicle, and we expect that to continue through 2018. We also expect to see continued good growth in our Industrial Products business, which is off to a strong start in quarter one. I hope this provides you with additional insight into our business and what we're seeing at this stage in the year.

And now I'd like to turn it over to Sue to provide more details on the quarter. Sue?

Susan Carter

Chief Financial Officer & Senior Vice President, Ingersoll-Rand Plc

Thank you, Mike. Please go to slide number seven. We delivered strong operating results in the first quarter, headlined by 23% year-over-year adjusted earnings per share growth. Gains were driven by operating income improvement in both our Climate and Industrial segments. Revenue growth was primarily driven by strong volumes and supported by the realization of positive price on key products. Inflation was higher than we planned and a significant headwind to margin expansion.

As Mike outlined earlier, netting out our Q1 performance and our visibility into the balance of the year, we are confident that we will exceed the high end of our guidance ranges on both revenue and earnings per share. We took $44 million in restructuring charges in Q1 driven primarily by footprint optimization in our Compression Technologies business as we continue to work to optimize that business for peak future performance. It's important to note that this restructuring was planned for Q1 as a part of our annual guidance of approximately $0.20 of restructuring. This is unchanged.

Our Industrial business continues to perform well with good growth and 190 basis points of adjusted margin expansion. The investments we've made in fundamentally restructuring the business operations are paying off. Capital allocation was balanced in the quarter. We paid $112 million in dividends and repurchased $250 million in shares. Our acquisition pipeline remains active, and we anticipate regulatory approval of the Trane JV with Mitsubishi in the second quarter.

Please go to slide number 8. As we've discussed, strong organic revenue growth coupled with adjusted operating margin expansion led to strong adjusted earnings per share growth in the quarter. Foreign exchange and acquisition-related growth also provided tailwinds on reported revenues.

Please go to slide number nine. Operating margin improvement was primarily driven by strong volume and positive price, partially offset by inflationary headwinds and continued investments in high ROI projects. Productivity in the quarter was low year-over-year but consistent with our expectations based on the timing of projects, and we expect improvement for the balance of the year. The 40 basis points negative price versus material inflation was largely consistent with our expectations for sequential improvement on this metric, despite significantly higher inflationary headwinds in the quarter.

Please go to slide number 10. Strong operating income expansion in both our Climate and Industrial segments combined for approximately $0.14 of earnings per share, and were the primary drivers of our 23% earnings per share growth in the quarter. We saw a negative impact of about $0.01 from higher corporate expenses related to stock-based compensation primarily tied to time-based vesting, $0.01 from discrete interest expense associated with the company's debt refinancing in the quarter and $0.01 from modestly higher effective tax rate year-over-year. We also saw a $0.02 benefit from the impact of share repurchases in 2017 and 2018 year-to-date.

Please go to slide number 11. Climate delivered 8% organic revenue growth in the quarter. Adjusted operating margins were lower by 50 basis points, impacted primarily by strong volume and positive price, more than offset by persistent inflationary headwinds in tier 1 and tier 2 materials and freight. Our direct sales strategy in China performed as expected, and we expect margins to sequentially improve as we move throughout the year.

Please go to slide 12. Our Industrial business continues to make solid steady improvements in its operating performance. In the quarter, we delivered 9% organic revenue growth and 190 basis points of adjusted operating margin expansion.

Please turn to slide number 13. We maintained a strong balance sheet providing continued optionality as our markets evolve. Free cash flow was consistent with our expectations given normal seasonality in Q1, and we remain on track to deliver free cash flow equal to or greater than net income for the year.

Please go to slide 14. We remain committed to a dynamic capital allocation strategy that consistently deploys excess cash to the opportunities with the highest returns for shareholders. We maintain a healthy level of business investments in high ROI technology and innovation, which are vital to our product leadership and market momentum.

We have a long-standing commitment to a reliable, strong and growing dividend that increases at or above the rate of earnings growth over time. We will continue to make strategic investments in value-accretive technology and channel acquisitions that further improve long-term shareholder returns. We are committed to maintaining a strong balance sheet that provides us with continued optionality as our markets evolve, and we maintain a minimum commitment to repurchase shares sufficient to offset dilution. We also see value in share repurchases when shares trade below their intrinsic value.

Please go to slide number 16. Moving on to our topics of interest section, we have one topic to cover that we know are on the minds of investors and worth addressing in our prepared remarks. Tariffs. I think the most important takeaway for the market is that we follow an in-region, for-region sourcing and manufacturing strategy. More than 95% of our products sold in the U.S. are sourced from the U.S. Net, the direct impact from U.S. tariffs on foreign imports should be relatively small. Additional tariffs have been proposed by the U.S. and other countries, but the details of those tariffs and the likelihood of their implementation is uncertain and negotiations are ongoing. So it's unclear how that will play out. We continue to watch this space closely. Over the long term, we are in an industry that recovers cost increases through price.

Now, I'd like to turn the call back to Mike for closing remarks before we take Q&A. Mike?

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

Thanks, Sue. Please go to slide 17. We believe the company is extremely well-positioned to deliver strong shareholder returns over the next several years. Our strategy is firmly tied to attractive end markets that are healthy and growing profitably, supported by global megatrends such as energy efficiency and sustainability. We've been investing heavily for years to build franchise brands and to advance our leadership market positions to enable consistent profitable growth. We've experienced management and a high performing team culture that breeds operational excellence in everything we do. And lastly, we are committed to dynamic and balanced deployment of capital, and we have a strong track record of deploying excess cash to shareholders over the years.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Steve Winoker of UBS. Your line is open.

Steven Winoker
Analyst, UBS Securities LLC

Q

Thanks all, and good morning.

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

A

Good morning, Steve.

Steven Winoker
Analyst, UBS Securities LLC

Q

Hey, nice to see this level of growth. I just want to get a sense. Last quarter, you had talked about 1Q earnings contribution kind of being lower than seasonal norm. I think you talked about the low end of a normal 12% to 14% range for EPS. Should we expect that to still hold, or when you look at the changes late in this quarter, anything that would lead us to not believe in kind of normal seasonality now that we are hitting Q2, normally I guess, 32% – 30% to 33%?

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

A

Yeah, Steve, the business over time has diversified in every way. We talked about that with Transport being more resilient, more diverse. The same thing is true in our commercial HVAC business globally, where service was a major contributor to us in the quarter, outstripping equipment growth and that's through the form of contracts generally. So it's not just repair fix based on weather. Those sorts of things are helping smooth out a bit of the earnings. So it's hard to probably just go back to historical trends and say that that's the business going forward, because over time like we did with cash over many years, we've been working on smoothing out the cash profile of the company. So there's an operating side of the company to make sure that we are smoothing out between quarters as best we can. Even in the Club Car business, which has got it's own seasonality, the consumer vehicle strategy is a way of offsetting some of that golf seasonality that we normally see there.

Steven Winoker
Analyst, UBS Securities LLC

Q

So what does that mean then in terms of what should we think about for the seasonality in Q2?

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

A

Yeah, I think Q2 and Q3 will always be our strongest quarters. I just don't know that you can take 10% to 15% of quarter one and quarter two or 45% of quarter one and quarter two, and 55% in quarter three and quarter four anymore. I think at this point in time, we do know we're going to exceed the top end of our guidance. We don't know yet by how much. And we're going to get back to you in quarter two once we've seen quarter two, and I think we'll be more accurate at that point in time.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. On productivity versus other inflation, I think that's the first negative one I've seen overall in like 12 quarters. Maybe, is that just – and you've put investments elsewhere. So may be a little bit of clarity on that. What's your color on that one?

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

A

There are a lot of major large projects that we invested in and executed in quarter one. And you saw that through restructuring as an example. So we think we've loaded up the year and 2019 with good productivity to follow. So I expect to be our normal good productivity offsetting inflation for the year. It's just going to be heavier loaded on larger projects, meaning that there were probably fewer smaller projects we saw in the quarter, but it doesn't change the pipeline where we try to get 125% of what we think we need for the year into the pipeline, and the pipeline remains healthy.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. And just on pricing. So you've already put kind of run pricing increases through parts of commercial resi. I mean, where are you relative to kind of the price increases given the commodity behavior already?

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

A

Pricing is really hitting expectations for us. We across the board achieved what we thought we would do in quarter one. We closed the gap quite significantly from quarter four. And believe that quarter one might look a little bit like quarter two, but what we've priced and will ship in the back half of the year and how we're thinking about price increases going forward throughout the year should lead to good performance in Q3, Q4. So the guidance we gave last time which was sort of a plus 30-basis point, minus 30-basis point and then biasing you towards the minus 30-basis point, we're really operating right within that minus 20 basis points, minus 30 basis points window.

Steven Winoker
Analyst, UBS Securities LLC

Q

Great. Thanks. I'll hand it off.

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

A

Thank you.

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

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, guys. Nice quarter.

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

A

Hi, Andy. Thank you.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Mike, this was the best quarterly Climate booking that we've seen in the last couple of years. If we go back to your guidance for the year, you had talked about mid single-digit accepted organic revenue growth for commercial HVAC. But it seems orders are trending a bit higher than that early. So maybe give us a little more color on the acceleration you've seen in orders. You previously mentioned that you can win some bigger applied projects are any of those in the bookings growth that you've had.

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

Thanks, Andy. The nice news is there was nothing in the quarter one bookings that we would have called out are spiked out. That would be a difficult comp for next year. It was very broad based across the globe. And so if you think about going across the globe, North America is shaping up about the way we thought it would shape up, solid growth in equipment. And in institutional markets, education specifically would be around K-12 say versus colleges and universities, K-12 is strong typically with mid-year elections coming, we're seeing more bond issuances that are passing or on the dockets for updating aging school infrastructure. That's good news. Healthcare is strong. It's not so much in acute care. We're seeing that in a lot of the clinics and specialty hospitals there. That's good. There are more of them that's been positive.

Other verticals are generally stable and positive. So if you look at ABI, auto sales, GDP growth, retail sales, non-resi fixed construction, vacancy rates, they all look good. They're all stable, are healthy, and they would point to low single to mid single-digit markets, and we would think that Trane will grow at or above the markets in North America. Europe is strong for us, particularly we're seeing that with a very high activity in our own sales pipelines. We're seeing obviously good contribution from the rental services business that we acquired in the quarter. Economic indicators there are positive around mid single-digits. Brexit is a bit of a wild card, but right now it's not showing up as much of an issue for us.

Asia is led by China. Very strong for us, that's fundamentally the direct sales strategy we put in place. We are very pleased with what we're seeing there, including service growth that we had in the quarter. Realizing it's about half of Asia, other important markets for us like Singapore and Taiwan will be down just a little bit. India will be strong probably up mid single-digit. And Thailand is a nice market for us as well. We'll see modest growth. So anywhere across the world, and I probably would throw Brazil in there as well. Brazil was a good market for us in the quarter and we think that that's on the road to recovery. So just about every place we're running commercial HVAC operations, we're seeing good growth.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Mike, that's great color. So Mike or Sue, just shifting gears for a second. You previously mentioned that you could get 50 basis points of margin expansion overall for Ingersoll in 2018. Is that kind of margin expansion still possible in this environment given your price increases, and you're going to hit productivity projects harder here, or do you get to sort of the higher than your guidance previous guidance from better organic growth, and maybe some modest margin expansion? Like how do we think about that and specifically focusing on Climate margins as well?

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

Yeah. And it's early in the year. But I think that when you fundamentally boil it down to operating leverage, we'll see better operating leverage in the back half of the year. Some of this is price cost relationship. Some of this is the way that productivity and products are loaded into system. Part of it's based on the assumption that we see continued good volume and mix in the portfolio. So that goes the way it should go then I would say that we would see operating leverage for the company along the lines of what we guided to for the full year of 20%, 25%.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Mike. I appreciate it.

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

A

Thanks, Andy.

Operator: Your next question comes from Joseph Ritchie of Goldman Sachs.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Usually my name is pretty easy to pronounce, but good morning, guys.

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

A

Joe, we know who you are. Good morning.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, so it's a nice quarter. I want to kind of touch on the price cost discussion. Mike, 40 basis points of price cost headwinds this quarter. I know that you guys don't typically love to talk about cadence. But is the right way to think about it that like this is kind of the low watermark for price cost for the year just given the pricing actions that you've taken, or is 2Q going to look similar to 1Q? I'm just trying to get a sense for what your expectation is.

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

A

Yeah, I think Q1 and Q2 will look relatively similar, but Q3 and Q4 will pick up. I think Q3, Q4 is relatively flat, particularly quarter four, meaning we're at that point matching cost increase. Now all that's predicated on us having an understanding of what's happening with inflation to the best of our ability. But from a pricing perspective we're layering in prices where prices are given to the market. So as an example HVAC will have a May increase as well. But on projects specifically, which have unique pricing, it's factored into those tools as well for pricing into the market place. So I think the back half of the year is stronger, and that's how we kind of get to that minus 20 basis points, minus 30 basis points for the end of the year.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then maybe just I heard you talk about increased freight earlier. But maybe talk a little bit about how that impacted the quarter, and what you're seeing on the wage inflation side as well, and what you're doing to offset both.

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

A

Well, it's a double-edged sword, because if you think about our transport refrigeration customers, they are seeing a 30% increase in their rate per mile and great demand. And if you couple that with what they are doing in terms of taking advantage of tax reform, you're seeing growth in the transport refrigeration market. But on the flipside of that, if you think about the industry, and I'm not a comment specifically on what we've seen, but I'm going to tell you from an industry perspective on dry freight, it's up about 15% over the prior year. So what I would say is that sort of number in the marketplace that is out there, and it's a meaningful number to companies like ours.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Maybe one last one. And just thinking about the guidance for the year; historically, you guys have provided an update in 1Q. Is it really just a wildcard to play at this point, the tariffs and the trade wars on why you decided at this point to just wait until Q2 even though your commentary suggests that things are going to be better as the year progresses?

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

A

Yeah, there was a year Joe that we did give quarter one update. But generally speaking over a long period of time, we've always reserved for that until later in the year. To us, there are a lot of wildcards out there, inflation being one, but tariffs and trade wars is also something that's I think on a lot of people's minds. And we're seeing that, frankly, on larger industrial projects, decisions being made by customers there, where in that particular customer set, I think it's more concern about tariffs and the cost of input and the location of plants or lines that they would be thinking about either expanding in the U.S. or somewhere else as opposed to tax reform. So where in the transportation markets, our trucking customers have taken advantage of tax reform, as an example, not as worried about tariffs. We're seeing a little different response with our Industrial customers, I think delaying some actions.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Very helpful. Thank you.

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

A

Welcome.

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

Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hey, guys. Good morning.

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

A

Good morning, Steve.

Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Can you just talk about how that price cost headwind, I think you said negative 40 basis points in the first quarter, how that kind of trends throughout the year? How much worse that – I would assume it gets a little worse in the second and then recovers into the back half.

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

A

Well, price gets better in the second, so that's true. We think that inflation probably creeps up a little bit again in the second quarter. So you end up Q1, Q2 relatively flat, kind of think minus 40 basis points is probably a pretty good number there. As you trend through the back half of the year, there's a more meaningful increase in price. And you're really then offsetting which should be relatively flat inflation at that point, because you're lapping pretty high inflation numbers at that point as well. So I think that the back half of the year tends to look flat. The front half of the year tends to look at minus 40 basis points. So you're in that minus 20 basis points, minus 30 basis points range.

Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. And then when you – I'm not sure you gave this, but can you just talk about what your resi performance was in the quarter from a bookings and revenue perspective?

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

A

Yeah, very solid. Very solid. Continued share gain there, and that was consistent with our expectations. Replacement and new construction, both healthy for us, obviously driven by unemployment and GDP being stable and other indicators that are favoring that. The Trane Go platform, which is the whole total installed pricing transparency tool, is really delivering some significant growth for us, and we're seeing higher leads, higher conversion rates, that's again driving the share gain, I think, there for us as well. And you know this very well, Steve, the tougher market compares Q2 to Q4, but we still think the market will be up low to mid single-digits and we expect share gain to continue there for us.

Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Were you up double-digit in the first quarter?

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

A

Not going to comment on specifically there. But I would say that there was share gain in the quarter. And obviously, you all know that it was a pretty good quarter for the industry.

Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks.

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

Robert Paul McCarthy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Good morning, everyone.

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

Good morning.

Robert Paul McCarthy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Yeah. So two questions. I mean, I guess, one, Mike, as you think about making the turn, this puts a fair amount of pressure on your third quarter just to kind of stand and deliver, right? You become a third quarter team because the seasonality in association with your business. And I know you don't want to get into quarterly guidance or the quarterly cadence. But what will be the expectations for incremental margins in the Climate business in the third quarter to cause you to raise your guidance for the full year? What do you think is implied, the line in the sand for the margin conversion we should expect to see in the third quarter?

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

Yeah. I'd start with there's really good visibility around Q3 as we stand here in April with half the business being service and the other half being equipment. Most of that equipment being in the backlog and really not relying heavily on book-and-turn to drive the business. So I think that the only wildcard we really have is, if you think about it, is inflation. Pricing will be set on deliveries that were going to be made. The backlog is being built. The service business is humming along. So I feel good about the ability to say that we're going to top the guidance that we gave at this point in time. I just don't want to be more specific about that until we actually see what happens in quarter two.

Robert Paul McCarthy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

And then turning just to capital allocation, any kind of update there of how you're thinking about things, particularly given stocks have pulled back there a little bit, cycle definitely looks like a little bit of concern. I mean any way you're thinking about underlying acquisitions or investments or your own stock through the prism of what is maybe a tougher industrial market?

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

So Robert, as we think about capital allocation and we think about Ingersoll-Rand, the first part that I want to start with is that we continue to have a strengthening balance sheet. Our process around cash flow, around managing investment has been good and will continue to be good. So when we think about capital allocation, and we talked about this in some of the prepared remarks, I don't think it's different than what we've said before. We're going to continue to invest in the business and investing in the business can be CapEx, which we guided at $300 million for the year. It can be in new products, it can be in our sales force, but continuing to invest in the business and that is really important to us.

It's having that strong dividend with growth in the dividend being equal to or greater than our net income. And then when you come to the remainder of the cash flow, I think what you think about is that we are going to deploy the excess cash flow, and how we deploy that last couple of pieces of it is highly dependent on what transpires from the M&A side and the timing of that.

We don't have to do anything on M&A, but we do have a good active pipeline as you can tell from the last four months or five months we've had some technology, some channel, some other things come through the pipeline that have turned out well for us. And what I'd like to see on the M&A side is our ability to grow earnings and to grow a long-term cash flow stream out of the M&A. And on share repurchase, you're right. Shares and the intrinsic value are showing a positive, and we'll see how that turns out. We've committed to offsetting dilution. We told you in the original guidance that we had modeled $500 million of share repurchase. But on that toggle between those two, I really would like to see us work the M&A side, work the earnings and cash flow growth side of that, and then be really smart on share repurchase and other aspects of capital allocation.

Robert Paul McCarthy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks for your answers.

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

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Thank you. Good morning everyone.

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

Hi, Jeff.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Mike, you may have partially answered my question on kind of the project industrial comment. But I wonder if you could elaborate there, I was thinking Industrial orders could have been stronger in the quarter. Obviously, you had kind of a pretty solid back half and there's some lumpiness there. But how do you see the trajectory in the Industrial business playing out maybe kind of on the larger capital side of the business versus maybe some of the shorter cycle elements?

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

Yeah. Let's first talk about two thirds of the Industrial segment, which is the compressor technology business. And here, we saw really strong growth in services and expect services to continue to grow stronger than equipment which is great to our focuses. We also saw a really good growth on short cycle compressors. We saw growth with some OEM work we do, selling components to other OEMs. And we saw a nice growth in oil-free rotary. So that was excellent growth, and I made a comment already about North America and Asia being stronger regionally. We do see lumpiness though in the very large centrifugal projects, and we're seeing some delays there. And it is driven by macro uncertainty related to tariffs and some of the risk associated there, but we do expect that to recover as well. North America manufacturing looks healthy.

All the verticals there are strong. Processed gas and air separation are expected to be strong this year as well. Key economic indicators are supportive here. Industrial production is at a two-year high. Defense-related aerospace forecast is strong. So we think the markets there will be good. AP will be strong regionally, it's strongest regionally for us. We think that China probably is tapering a little bit from 6% GDP, but we're seeing that there's still good growth in the market there as well. On the other third, the other $1 billion of the Industrial market, really strong growth in small electric vehicles, particularly as it relates to the consumer strategy. And we saw good growth, if not excellent growth in the Industrial products, which for us is going to be material handling, it's going to be our tools and our fluid management business, which is a very high margin business for us.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And then just shifting back to HVAC and then probably really it's more of a resi question. But was there or has there been kind of pre-buying in the channel in front of kind of the next wave of price increases? Does that kind of distort things here as we kind of try to figure out Q2?

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

A

Yeah, I don't think the price increase or the time they were given was that different than what the expectation would have been in the prior year. So there could be specific distributors that might have done more than they would have done. But as we look at inventories across the backlog, they're pretty appropriate for where they need to be at this point in time. So I don't see tremendous risk there.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And maybe just one other quick one. How about hedging? I mean, with materials whipping around the way they are, your strategy change, do you want to hedge more, do you want to hedge less? You obviously don't want to be kind of "betting" on these items. But any color there would be helpful.

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

A

Yeah. Jeff, I think, you've got that exactly right. We don't want to be in the speculation business. But let me give you a couple of thoughts on what we're doing today, and maybe options for the future. So today, again, we've got visibility on steel. You can't lock it, you can't hedge it. We've got visibility of about six months, three months on pricing and about three months on inventory. So we know what that looks like, and we know what we have to do in terms of price on the steel side of the market. On copper, we lock copper prices, and so we're locking in volumes with our supply base throughout the year. We enter any given quarter at about 70% locked on copper. Actually we're about 66% locked for the year on copper. But what happens on that lock, and I think this is important is, we're giving volume commitments and we're getting pricing commitments out of the supply base.

So in other words, the fluctuations on that copper price are actually belong to the supply base, so any financial hedges are being done on that side of the house. Now, is there pressure for maybe us to take on a little bit more of that with the change in hedge accounting rules and things like that? The answer is perhaps, and it's perhaps a way to do that. But I think what you would do even if we hedged the actual copper or aluminum, is you would still layer in your purchases so that you're almost doing $1 cost averaging type of move on buying in those commodities. I think you probably end up in about the same place with a financial hedge versus the locks that are out there. So we continue to refine our thinking around that. We continue to work on the processes, which is getting really good at projecting the volumes really good at projecting the timing of those, but I really do think it kind of works like it does today with us getting visibility on our costs so that we can react with pricing if need be.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC Q

Thank you.

Operator: Your next question comes from the line of Julian Mitchell of Barclays. Your line is open.

Julian Mitchell
Analyst, Barclays Capital, Inc. Q

Hi. Thank you.

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

Good morning, Julian.

Julian Mitchell
Analyst, Barclays Capital, Inc. Q

Morning. Maybe the first question just on what's happening in your Climate business in China. That was something you called out a few times last year as being a pretty big margin headwind. I think you mentioned that the financials are looking slightly better there. So maybe flesh out that a little bit. And also just strategically, how you're progressing with that market share push?

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

Yeah, actually I'm going to answer your question and then I'm going to probably add on a little bit which gets to maybe a little bit of Steve Tusa's last question regarding specific kind of guidance or results in different businesses. But the strategy is going very well for us. There's exceptional equipment organic bookings happening there. Just to give you a point of color, the visibility that we have in our project pipeline that we would put all projects into a pipeline that are out there for us to pursue were up 100% year-over-year, meaning they doubled. So we have visibility to twice as many projects as the prior year.

The number of proposals that we provided were up 130%. So the projects we're actually finding or even better projects for us to go pursue albeit they might be larger or longer cycle, projects that perhaps distribution wasn't getting at, but our company-owned resources are our direct team is getting at. So very strong growth in bookings there, very strong growth in service there as well, and that is the most important thing. That is mapping how we wanted it to map, which means that the financial pressure there on the margin is getting better as it was planned and should be getting year-over-year. And I would say that, I've got high level of confidence that we'll see 2018 margins that are flat to 2017 margins on a much higher revenue base for the year. And I think in 2019 and beyond it will be a nice tailwind for us as the service business grows.

Julian Mitchell
Analyst, Barclays Capital, Inc. Q

Understood. Thank you for the color. And then secondly, I guess within the Climate business, you did see an acceleration in the organic bookings growth in Q1 from late last year. I realize you don't want to get into too much detail, but was that all about Thermo King accelerating or the overall transport refrigeration business, or did you also see some improvement in the commercial Trane side?

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

A

Yeah. One versus the other was not remarkable in terms of what drove the business. So there wasn't sort of an outstanding performance in one business covering up for another. And getting back to the question that Steve asked a little bit as well, over the last say five years, I've never seen a better linkage from strategy to execution as it relates to the ability for us to identify strategic growth programs, invest the talent and the resources into those, and then get really good results often a multiple of what the underlying growth rate is of the business. And they're mapping exactly to what we planned, and we provide so much detail on these calls, particularly in a tough pricing environment, all we do is put a bull's-eye into back of our salespeople out in the marketplace around sort of where we're penetrating and who we're beating.

So it doesn't really help the company, which means it doesn't help the shareholder for us to be providing too much of that. It also invites a lot of short-termism into the way that people would think about the business because a quarter, whether we have a blowout number or don't, really doesn't change the long-term dynamics of what we're trying to do strategically around growing the business. And so again, we thought long and hard about that, I apologize for the sell-siders who really use that to model, but believe it's in the best interest long-term, certainly of the company's shareholders that we don't provide that much granular information on a go-forward basis. But back to your question, really good growth both in HVAC and in TK. The surprise to us has been the TK business, which is strengthening globally, but also strengthening in North America, specifically around the trailer business that we talked about.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. It makes sense.

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

A

Thank you.

Operator: Your next question comes from Tim Wojs of Baird. Your line is open.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Hey, everybody. Good morning.

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

A

Hey, Tim.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

I just had a question maybe on just the order growth and backlog, and maybe this will just kind of help us a little bit with the back half of the year. Anyway in Climate to just kind of think about what the margins are in terms of what your booking for orders or what's in backlog maybe relative to what we saw 12 or 18 months ago?

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

A

Well, you think about backlog margins being higher because they're going to have higher price on the backlog margin. So if you think about standard cost being roughly the same first half to back half, we're not going to change standards midway through the year. What's different is the pricing coming into that, plus you're seeing, hopefully seeing additional absorption coming into the factory volumes on the higher revenue. So the margins in the back half of the year are better than the front half of the year, and that's sort of the outlook that we've got on why leverage and ultimately margin expansion for the full year happens.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. And then just with some of the movements on the debt side in the quarter, any update in terms of how we should think about interest expense for the year?

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

A

Yeah. Tim the 8-K and the information that we put out there, so let me parse this into two parts, which is 2018 and then post 2018. So in 2018, the benefit on interest expense is about $11 million. On Q1, specifically, actually, our interest expense is up very slightly because of actually having interest on both the refinanced tranches, as well as the new tranches for a short period of time. If I look beyond 2018, the guidance that we gave was about $19 million of benefit 2019 and beyond.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Good luck on the rest of the year.

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

A

Thanks, Tim

Operator: Your next question comes from Rich Kwas of Wells Fargo Securities. Your line is open.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone.

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

A

Hi, Rich.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Just following up on one of the earlier questions around price cost. So at the beginning, there was a band of plus 30 basis points to minus 30 basis points for the year, Mike. It sounds like you're in the lower part of that range, but obviously comfortable with how the guidance is going to play out for the year and from an earnings standpoint? Is that the right way to interpret this?

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

A

Yeah. In fact, what we talked about was the fact that typically we'd be plus 20 basis points, plus 30 basis points. We said look, let's not be so precise because we've had so much inflation here and it's so volatile that, let's say, it's minus 30 basis points, plus 30 basis points. But within that window, we're confident at that point in time that we're going to be able to get the leverage in the business that we had thought about and communicated to you by managing the entire P&L. And that's the intent. Now within that, we said, let's bias it toward the bottom end of that range. Let's play it safe. Let's look at minus 30 basis points as probably being closer to the reality.

And what we're seeing transpire in the marketplace with price is that we are certainly within the band that we've communicated, say minus 30 basis points. If you looked at a spot forecast, we could say minus 20 basis points today. Understand the volatility in that is moving quite a bit. So I feel good about being in that kind of minus 20 bps, minus 30 bps range at this point, and that will evolve over the course of the year as these wildcards play out.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay. And I know it's really, really early, but as we think about lap-over impact into 2019 from commodity at this point, and any early thoughts there, early reads there as you think about it. I mean, obviously, you have some time here from a productivity standpoint to execute some things. But just curious on how you're planning for this, looking out 12 months or so.

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

A

Yeah. As volatile as it is right now, we're certainly looking at what's happening for the year. So it's not that we're not thinking about 2019, but we'd be really stretching to prognosticate much at this point in time. We want to make sure we can call Q3 and Q4. So at this point in time, I'd hold back on comments there.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks so much.

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

A

Thank you.

Operator: Your next question comes from Joel Tiss of BMO. Your line is open.

Joel G. Tiss
Analyst, BMO Capital Markets (United States)

Q

Yeah, I made it. How's it going? Almost everything has been answered for me, but I just – can you break apart the pieces of Thermo King? You usually give us a little bit of a better sense of what's happening across some of the pieces, and I just wondered if you could do that again.

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

A

Yeah. And it'll take a minute because again it is a diversified business here. But let's first talk about North America trailer, which is where some of the news is. And here you've got tight shipping capacity. You've got tight labor supply in terms of drivers. All driving the 15% sort of industry increase that I've mentioned. You've got regulatory changes here which are also impacting. So this is electronic logging devices specifically. And then you got the benefit of the U. S. Tax Cuts and Jobs Act. So ACT raised their outlook to 44,600. I think last time we spoke, we were kind of biasing around 41,000 and that was a little better than the original plan which is around 39,000. I think, frankly, it's somewhere between 41,000 and 44,600, which is what ACT has.

ACT may not have thought through some of the constraints around cabs or even about inventory in the marketplace. And so perhaps in the number is 2,000 units or so less than that. It's all good news. Europe should be very solid for truck, for trailer as well broadly, some markets are stronger than others. Interestingly, Russia is about 15% of the market and it's growing a little faster than Europe as a whole. So there is a wildcard there on anything would happen there with further sanctions in Russia. But generally speaking, it's good growth. The APU market is strong and that is really tracking Class 8 sleeper cabs and then our bolt-on rate kind of where we measure the bolt-on from our units on to these sleeper cabs is increasing and that's looking like the plan we laid out for you at the Analyst Day over a year ago at this point in time.

The marine market is strong. I want to say in the quarter, it was up over 220%. The market was up over 220%. It's relatively small business for us, but good growth there. And then bus, rail and air would be mixed. Rail is longer larger projects that are good for us. Bus is a lot of the city kind of transit buses and air is an interesting but small portfolio where we're seeing more biopharma moved through this route. You're seeing sort of 10% increase in the market for moving biopharma in refrigerated containers via air. So that's a strong sign around those businesses. But collectively, those bus, rail, air businesses are something like 10% of the portfolio, so not a large part of the portfolio. Good growth in Latin America, specifically Brazil, and continued good growth in Asia.

Joel G. Tiss
Analyst, BMO Capital Markets (United States)

Q

And are the prices of acquisitions high enough at this point that we should expect the overall share count to drop a little bit more or you guys are going to keep your kind of methodical approach and try to balance everything out?

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

A

The methodical approach really is just keeping intrinsic value in front of us as we're looking at an acquisition and trying to make the right long-term decision around the acquisition. So obviously, as the share price drops, it makes the intrinsic value greater, it makes acquisitions a little bit more difficult. But look, if what we see persists, the price of acquisitions should come down too as well.

So look, let's just let this thing play out, but I think we've shown a very disciplined process over the past few years about why we buy and what we pay for. And I could tell you that what we've bought in 2017 is generating far greater EPS in 2018 and 2019 than share repurchase but that's because we looked at intrinsic value versus the acquisitions and made good decisions and integrated them well into the company.

Joel G. Tiss
Analyst, BMO Capital Markets (United States)
Q

All right. Thank you very much.

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

Thank you.

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

Robert D. Barry
Analyst, Susquehanna Financial Group LLLP
Q

Hi, guys. Good morning. Thanks for taking the questions.

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

Good morning.

Robert D. Barry
Analyst, Susquehanna Financial Group LLLP
Q

Yeah, I guess I just wanted to, on the margin walk, to get a sense of how you expected the investment spending to track as we progress, does that maybe stay at a 40, 50 basis point headwind through the year?

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

Yeah, I think on investment spending, let's call that similar to 2017 as we go through the year. I think what is important, Robert, on the investment spending itself is what that actually is going into. So we're continuing to work on new products. We're continuing to work on our operational excellence initiatives. There's a small amount of IT. But in terms of how we're going to do that throughout the year, it would look similar to 2017. And the changes that we may see as we go through this and this is an important part of our process is, we've got an investment review board that looks at all of the different components of investments that we do and make sure that we've got the right business cases, the right value creation for all of those investments and that's a really sound practice for us as part of our business operating system that may impact some of that timing somewhat, but I don't expect it to be terribly different.

Robert D. Barry
Analyst, Susquehanna Financial Group LLLP
Q

Got it, got it. And listen, I can appreciate if you don't want to say any more on this front, but – and others have touched on this. But you were guiding Climate up 3%, 3.5% and you started out 8% with orders up 11%. So I think we're all just trying to get our heads around like what, if anything, is so materially different or maybe your plan kind of factored something like what we're seeing or there is some shoulder season volatility in there. But just any thoughts on...

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

A

It actually gets, yeah, it gets very much to my point – it gets very much my point that strategy is mapping very closely the strategic growth programs and the product growth teams is a success in these markets. And in some cases, I think, we're surprising ourselves around the growth here and that's great. So, it was a very strong quarter delighted to have sort of booked that and put it into the backlog and we're going to see how quarter two and quarter three progress.

Robert D. Barry
Analyst, Susquehanna Financial Group LLLP

Q

Got it. Okay, great. Well, congrats on the solid start. Thank you.

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

A

Thank you.

Operator: Your next question comes from Deane Dray of RBC Capital Markets. Your line is open.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone. Know we've covered a lot of ground here. I did have a follow-up question for Sue. In your answer to Jeff's question on inflation in steel, I think you said that you can't lock in the prices, but just if you could refresh us my understanding you engage in advance purchasing, so you basically pre-buy or commit 100% of the volume expect each quarter and then ladder that out. Is that still the practice? But aren't you locking that in for the quarter each time? So is that really locked in or not?

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

A

So Deane, great question. On steel, what my comment was meant to be is you cannot do a financial hedge or something of that nature on steel. However, it is a lot like a locking program where we get visibility from spot prices and commitments, contractual commitments from the suppliers on steel that will go out three months. So that we've got visibility to the pricing and then we've also got inventory. So we've got about six months of visibility to price increases or decreases. It's just a matter of there isn't a financial hedging mechanism that's out there on steel, which could be on copper and aluminum.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Great. That's helpful. And then for Mike, could you update us on the whole initiative around connected buildings. That was a big focus at the analyst meeting. What the take rate is, the number of buildings, the kind of investment you're making, but any color there would be helpful.

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

A

Yeah. I'd say the whole digital strategy for the company is probably the largest investment when you look through that across the company if you look at product growth. It is definitely in the results that we're seeing around why the controls business was up as much as it is. And then specifically on the connected strategy and growth rates there, we talked about sort of 30% compound growth rates and we're continuing to see that take shape. We just made an acquisition in the quarter around another company a small company, a lot of intellectual property and many, many hundreds of thousands of connections through smart meter technology into our platform. So there is more investment happening there as well and we're trying to extend and get a larger footprint. But the strategy is growing roughly 30%. You were seeing that show up in our controls business and it's intentional. That's about all I could say there.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

A

Thank you.

Operator: There are no further questions at this time. I will now return the call to Zac Nagle for closing comments.

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

Great. Thank you, everyone for joining the call. As always Shane and I'll be available to take your questions today, tomorrow and in the coming days and weeks. We look forward to seeing several of our large investors on the road in the upcoming weeks as well. And hope everyone has a great day. Thank you.

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