Andy: …basically, since you start here at the company in their primary climate business and I think not recognized enough for it, but I know that Mike's going to talk to us about that. So we're pretty excited to have Mike Lamach and Sue Carter with us. Mike became CEO and Chairman of Ingersoll Rand in 2010. Before that held various positions in the company after joining in 2004. Sue joined Ingersoll as SVP and CFO in 2013. I knew her in a previous life at KBR and she was also at Lennox before that. So look, we're really excited to have you guys. And so Mike, maybe I'll turn it over to you just to start off with – for just a little bit of a brief overview on the business, what's going on with it for some of the people who don't know the company as well.

Mike: Thanks, Andy, thanks for having us as part of your Global Industrials conference too. We appreciate the opportunity, Sue and I both.

Andy: Thank you for coming.

Mike: As you've said, it's actually the start of my ninth year and it's maybe unusual to have a CEO tell you about how bullish they are about the company nine years in, but I really am and it's for a couple of reasons. One, we've spent so much time over those years building an operating system. We've created a very strong management team that's been very stable for a long period of time. We feel like we've got great bench strength there. And to your point, we're finally seeing both climate and industrials growing at the same time, which it might be the first time in my nine years we've actually had both trending positive.

Andy: You're here long enough…

Mike: That's right. So the strategic plan for the company hasn't changed over that period of time and we like to think about that as positioning ourselves in leadership in durable markets. When we think about durable markets, we think about those as being markets that are very much underpinned by macro megatrends. And in our case, the most powerful megatrend is sustainability. And here it's the need to dramatically reduce energy demand and resource constraints and buildings, homes, industrial processes and transportation systems around the world. And if anything, we see those trends strengthening that weakening over time. So we feel like we've got a good durable tailwind for us strategically.

As a result of that, there's a very strong focus on innovation and on growth. And for us it's about delivering the most reliable, most energy efficient products and services that are out there. An environmentally friendly aspect of that is very important because the greenhouse gas emissions that are emitted in buildings and in transportation and industrial processes that come from refrigerants is an enormous part of the greenhouse gas emissions story.

But we also are a key player in reducing food waste and transport refrigeration, preserving natural resources in many of the processes we touch and in generating productivity for our customers.

We have to maintain a very healthy level of investment around that because that technical leadership is critical to our franchise brands we've built over the years. And innovation is something that customers have really counted on Ingersoll Rand delivering and it's a point of pride for our people across the company as well. So brands like Trane for HVAC or Thermo King for transport refrigeration, Ingersoll Rand for compressors and tools, material handling, those are all brands that we support through strong innovation.

I talked a lot about the business operating system and here we always are targeting top quartile metrics and metrics that matter. So we'd look at it from an employee's perspective, a customer's perspective and a shareholder's perspective. And clearly from this group, EPS growth over time, strong cash flow, conversion are all areas that we look at cash flow. ROIC would be a third that we really make sure that we're targeting and achieving that top quartile performance through the operating system. And to your point, we've been top quartile to EPS growth. Incremental margins are driving that. We've had top quartile organic growth over that period of time. We've been a top quartile cash flow ROIC company, really, over an eight, nine year period at this point in time.

So we last year took that free cash flow and deployed $1.9 billion of that in the form of dividends, share buybacks and acquisitions. And, Sue, I think it's about $8 billion that we've done over the last…

Sue: Yes, that's correct.

Mike: …five years, yep. So we've been very pragmatic about that, really want to be a very savvy capital allocator and that's I think – to the point, we're buying shares back well intrinsic value, looking for strong M&A, investing in accretive ideas around growth inside the company, organically as well.

So I'm not going to try and anticipate all the questions for you, but I want to reiterate a few things about what we said on our Q4 earnings call. We do expect to deliver mid, single-digit top-line growth and operating margin expansion with solid leverage in 2018 and we'll manage that through the whole P&L. We expect our markets to remain strong. We expect pricing to continue to be positive in the face of rising commodity inflation. We'll deliver strong productivity as we've always done and we use that to offset other inflation throughout the company. We'll generate free cash flow equal to or greater than net income and we've done that now for many years and we'll continue to do that as well. And we'll invest in net cash flow and high ROI projects. We'll continue to pay a strong growing dividend at or equal to EPS growth across the company. We'll repurchase shares like we've done historically when shares are trading below what we think to be intrinsic value. And we'll continue to focus on our M&A pipeline and be smart about those acquisitions that fit the core of the company.

So as I started, I'm very excited about the future and delighted to take questions that you have.

Andy: Excellent. So I want to start with one of the first things you said, because you always when you start talking about the company, you talk about innovation. And I've always tried to get more out of you on product growth teams and it's kind of like the secret sauce of Ingersoll to some extent. And so maybe talk about innovation as you sit here today, because you guys have been ahead of competitors, competitors are trying to catch up. But it seems like Ingersoll can continue to stay ahead. So maybe talk about that.

Mike: I'll tell you Andy, it's interesting. In the early days I felt like we weren't talking enough about innovation, like 2009 through 2012-13. We were focused on operational excellence and execution and getting the trains – no pun intended – to run on time. And we were able to do that, but clearly, we invested the same discipline in our growth programs across the company as we did around our operational programs inside the company. Product growth teams were a big part of that.

We used to count the number of value streams, we used to count the number of product growth teams, but it's ubiquitous cross the company today. So the whole company really runs with a value stream mentality. And the product growth teams today, if I did put a number on them, would run between 70 and 80, and hypothetically it might be 100 available inside the company. And that's created a really strong focus in the company for teams of people to work together around common goals. There's a lot of work that goes into the analytics around competition and around markets. We try to find the one or two things that we believe either a segmentation model or a competitive weakness or an unserved area of what we do. And we'll focus the attention of our engineering operations and product management teams around that one single goal.

And that one single goal is measured by how much share did you gain and how much did you expand margins. And that unifying principle of goal alignment is something that is very powerful and we've had great experience with that. People love working that way. It's also what's driven engagement to very high levels across the company and retention of people and the ability to have continuity of talent across the company.

Andy: So some people that I talk to worry about the US nonresidential market, but the interesting thing about you guys is that applied HVAC, you've done really well in for a long time. And I think a big part of this is what we're just talking about here with innovation and being able to stay ahead of competition. And I also think globally you're building out pretty significantly in applied HVAC. So maybe talk about sort of that marriage of the strength of innovation with the visibility that you have in your applied business. Because I think that's been a big driver of your growth and will continue to be.

Mike: Yeah, the applied HVAC business – so just to define that really quickly – is the engineered systems, it's the complex engineered systems that go into complex buildings that might be mission critical, hospitals, institutions, higher education, those sorts of environments. And here it's an opportunity for us because the channel that we have is so strong technically around being able to customize systems, the number of – all of the people that sell for us are degreed engineers, many are professional engineers – will go through rigorous multiyear training with us to become very savvy about how to set systems up.

So one of the important things for us is always owning that direct channel and then building that out with very strong systems, thank(?) our systems people. And the ability to give our customer a whole range of different systems ideas, lowest first cost, lowest total cost of ownership and everything in between, has been a strong suit for the company.

So you're right, we have been building out that across the globe and recently over the past 18 months, we've moved from an indirect model in China to a direct model in China and we've moved to tier 3, tier 4 cities across China. This is an interesting story because if you think about it, we've put about 350 people into the commercial frontend of our business. And essentially have taken our supplier – sorry, distribution intermediaries out of the way. You would think in that transition period that there'd be a dip in sales, but to our surprise, we were up 20% last year through that direct model. So we think we're onto something there that's worked in every other part of the world for us. In building out that China footprint is the activity in '17 and some of the activity in '18 for us.

Andy: So since you mentioned it, let's just talk about China for a second. So you've talked about this China mix issue and you got a lot of questions on the last call about it. I mean it does seem like you've now established this direct sales force. It does seem like, again, because you're now a player in the industry, maybe pricing can solidify for you. So maybe talk about your confidence that the mix issue, if you want to call it that, is going to sort of alleviate here in 2018.

Mike: So the mix issue is that typically in our commercial HVAC business, we're about 50% service and about 50% product. And as we enter this long cycle, institutional markets and large government projects – it could be airports or infrastructure projects – the sales cycle is longer and then the need to build a service business on top of that takes a year or two to be able to build that. So it's something we did in tier 1 and tier 2 cities in China. We're just building that out now to new verticals and into tier 3 and tier 4 cities geographically. So we've had experience in being successful everywhere doing this.

So my sense would be in 2018 it really won't be a headwind to us and then '19 and '20 you'll see the service annuity kicking in. Service margins are much higher than the equipment margins and so that's where that perpetual motion kind of takes place, is on that service annuity.

Andy: Do you see the service mix in these tier 3 and tier 4 cities starting to really kick in in '18 or is it really – do we have to wait longer?

Mike: No, they kick in really six months, a year into a contract tops. It used to be in a lot of the emerging markets you'd wait longer than that. It was more of a break/fix mentality. China's long past that in terms of that thinking and really buys service. And then systems have become so complex and there's so much involved with controls and sort of the digital aspects of what we do in buildings and with systems, that it's not something that generally speaking a third party can take care of or a customer's maintenance crew can take care of. So it really drives the service annuity six months to a year down the road. And we're seeing that already in 2018.

Andy: And let me just ask you a couple more questions on this line since we're here. Like the Middle East has also "been tough," in quotes, because of pricing. Does it get any better in 2018, given maybe Middle East is coming back a little bit, in terms of that economy?

Mike: Yeah, I mean Sue's comment here that I think is a good one when she gets this question a lot, talks about it, like it's just very large projects and fewer of them and the same number of competitors. The good news is, is we found that customers in the Middle East really want to buy our systems that have the HFO refrigerants, the next-generation refrigerants, with very low global warming potential. And so we've been able to win a very high share of those awards at premium prices, relative to competitors who don't yet have them in the marketplace. So the pricing there is tougher than it used to be. It's not horrible.

Andy: And you will grow, you've been growing in that business.

Mike: We have been.

Andy: And you will grow in that business in 2018.

Mike: We've had 20% growth in Western Europe, China, the Middle East over a kind of multiyear period at this point. China was the one exception where we had a bit of a dip in '16. Just the whole economy in China was down. But '17 it's really back gangbusters for us with 20% type growth in '17 and we think strong growth building in '18 as well.

Andy: Good. So I should also respond to one of your other comments around, again, you expect strong growth. You're bullish in both businesses. It's probably the only time since you've become CEO that you do see this kind of strength. And you've got 12% backlog growth at the end of the year and your guidance, of course, some people come back to me and says could be conservative. And I know you've talked about sort of project timing and all that kind of stuff. But maybe just give us sort of your view on what growth should look like in 2018 with that kind of backlog. Is there risk there in terms of like, again, it seems like the growth is – the guidance you've given is conservative – is there risk there of even hitting that guidance? Because it seems somewhat conservative.

Mike: Well, I mean first thing I would do is look at what we laid out in May of '17 around our 2020 targets, and really, the fact that we're on track for those 2020 targets. And some people would have looked at those and thought that they were pretty aggressive, but we're on track for that 2020. So whether these shipments on backlog are 4th quarter of '18 or some time in '19, when you're seven weeks into the year, it's very difficult to know exactly what the readiness of the customers and the sites will be about accepting equipment and starting it up and getting paid, and recognizing revenue on that. So for the most part, we're not going to know until the middle of the year, Andy, on that. So I get why people think it's conservative. But again, if you look at it outside the bounds of a fiscal year, we've really built a significant backlog that takes us into '19 and as you think about the company in '18 and '19, we believe we've built a nice runway for those – for at least that '18, '19 period of time.

Andy: So let's talk about those 2020 targets for a second. Again, to your point here on target, but you also kind of hinted that maybe industrial is a little ahead of target. So maybe talk about the opportunities that you've seen there. What's been a little better than you thought so far? Is it just industrial environment's better? Has it been better execution? What's it been there?

Mike: One of the things we talked about in May of '17 on Investor Day in our compressor business, our air compressor business, was that we could improve profitability of our largest framed compressors by $40 million with no change in revenue. And it was really about the deep engineering that was involved by taking the legacy Cameron product and the legacy Ingersoll Rand product and putting sort of the best of what we knew about both of those products together. And that's already done and certainly we're generating the results from that. And also there was an opportunity that we talked about growing the service business in industrial, particularly on that legacy Cameron side. That's gone to plan for us and we've been able to grow nicely there.

And then we've continued to innovate there. So this is, again, the benefit of a strong climate segment over the last few years and even it was a weak industrial segment. We were able to invest quite heavily in the industrial compressor product lines. And so we saw that last year, this year, next year there's a series of launches coming out for us that refreshes our industrial compressor product portfolio.

Andy: So maybe you can talk about productivity, like it's a good segue to you guys, when you do well, you can put in 100 basis points tailwind from productivity. It seems like there's still a fair amount of opportunity there, if for some reason price versus cost is a bigger headwind than you think to offset with bigger productivity. So maybe talk about some of the initiatives that you have in both segments around productivity.

Mike: First I'd say the operating system, the model that we use is we always think about price versus material inflation specifically. And we try to get – capture a little bit of a 20/30 basis point premium there. We've done that historically with the exception of last year. We were negative. But historically that's the case. We'll target that again this year. We've centered on sort of a breakeven there between pricing, material inflation and plus or minus 30 basis points. We're able to swing that with the guidance that we've given.

We look at all other productivity, including material productivity, labor productivity, indirect productivity, to offset all other inflation inside the company. And that's how we would build that pipeline. There's a very sophisticated set of tools in the company to actually schedule out all the projects in the company that would generate productivity in a particular month or quarter. And at any point in time you're going to find a thousand to several thousand projects that are going on inside the company to generate that.

If I aggregated up into some of the larger ideas that we have across the company, we've made so much progress in our manufacturing footprint and in our utilization of our factories through lean, that we see now an opportunity in the warehousing and logistics side to be able to consolidate there further and save both freight and the expense of fixed costs of additional warehouses, etcetera. That's a big one for us.

We also think that in the G&A functions of the company, specifically it would be like finance, HR, IT, legal, we've done extensive benchmarking in '17 around that. Have established what top quartile should look like. And we've had to go outside of our own industry to be able to do that, because in some cases we're already top quartile, but there were other companies with models similar to us that just not be industrials that you can learn from. So we've – in '18 and '19 have determined that we're going to close that gap on the G&A side. And the goalposts there are somewhere between $100 million and $175 million of opportunity by the end of '19 in the run rate, from a G&A perspective.

Andy: And that's new opportunity, right?

Mike: New opportunity, right.

Andy: So it reminds me to ask you, like just stepping back, because you and I have talked about this a little bit. Like I still look at Ingersoll with a bit of a discounted valuation versus some of the more multi-industry peers. But you're doing all the other things that all these other companies talk about. So what do you think the market's not getting?

Mike: Well, I mean we've done it for a long time, I just think that memories were long too and I think that in a lot of cases, somebody will get spooked about TK, North American Transport or industrial compressor margins. And then we tend to trade at the more least common denominator around that, as opposed to the fact that if you look at the quality of earnings, the cash generation, the margin expansion we've had over time, it's created a lot of benefit to us.

One of the things that has been interesting is, because the stock does trade well below its intrinsic value, we've bought a lot of shares back over that period of time.

Andy: It's an opportunity for you guys.

Mike: Right. Because it's made M&A more difficult when you're looking at that sort of discount. But our belief is that if you continually are top quartile in the metrics that matter to shareholders over a long period of time, that that discount will evaporate.

Andy: This is an unfair question, but I'm going to ask anyway. Is there anything more you think you can do to get that multiple up? Like are you doing everything that you think you should be doing? Like is there something missing and you could still do better?

Mike: Well, we had dinner last night that you arranged and we had a number of investors and one of the things that I always turn it around and ask our large investors around that. Part of this is just making sure that we're communicating the story more often in more venues. And so communicating kind of what we're doing and the diversity around the company and the cash generation power of the company over time.

So one of the things that I reference is we've been almost a 20% cash flow ROIC company the last seven or eight years. Top quartile.

Andy: That's top quartile _____...

Mike: You start really compounding cash at that level. And so a lot of that cash flow has gone to dividend, share buyback at this point in time, but if we found the right opportunities to grow through M&A, we would do that as well. We've had some investors say to us, you probably would have been rewarded more for doing some larger M&A over this period of time. But if you go back three, four years, five years, investors were saying well, hold on a minute. I'm not sure Ingersoll Rand should be doing large-scale M&A. So I think we've made progress in changing the mindset about being a good operating company, about being able to integrate and perform well on acquisitions. And so it's nice to have that shareholder base at this point in time, hey, we think you will do a good job with M&A at the right value, in your core, go ahead. And so clearly it's got to be actionable and affordable for us.

Andy: So talk about the M&A environment then. You mentioned that it's been a little tough, valuations are high. We've talked about specific areas that you might want to invest. You also are investing in distribution. So maybe talk about that on the commercial HVAC side, because I think that's something that people don't – it's a little bit under the radar screen too. So maybe talk about where the focus will be.

Mike: Yeah, distribution and technologies that we can bolt right into the existing structure, very, very easy for us to do. Distribution is very, very simple, oftentimes we've had a relationship with that distribution partner. They're good at what they do, we bring them in-house, make them employees of the company. We recently acquired a very large rental company in Western Europe. And when you put our existing business in Western Europe together with the business we acquired, we're very solid, strong number two in that market, growing at a much faster rate than number one in that market, organically. And that's an opportunity to provide HVAC rental systems into temporary or transitional projects where we can then provide service or then provide permanent solutions. We've found, as an example, that rental's been a nice way for us to transition with customers into more permanent service or more permanent retrofits. So that would be an example of distribution that is a little bit outside of the path that is normally thought of about. But we're actually one of the largest HVAC and industrial rental companies out there in our space.

Andy: And the growth rate there is quite good, right?

Mike: Very good, very good. Margins are great, EBITDA margins in the high 20s. Very accretive to…

Andy: And you probably own about half of the distributors in the US _____...

Mike: Well, commercially it's about 90%.

Andy: Commercial…

Mike: …Residentially it's zero. We don't want to own residential distributors.

Andy: Right, do not, yeah.

Mike: I'm sorry, residential dealers. Distribution is a little bit different, but on the commercial side, because of this fact that we need to have the best people selling long-term systems, relationship with the customers, it's very difficult to do that through distribution that's not wholly-owned. And so over time we've been acquiring back some of these legacy distributors that are still out there. But today it's about 90%.

Andy: So higher then. Any questions from the audience? Does anybody have anything? Good. I think we need a microphone. Seth, you want to…

Mike: And I can repeat it so I can make sure I understand it.

Q: I was wondering if you could spend a moment, delve a bit more into – and quantify the megatrends that you spoke about. What's your market growing at and what – is that delta changing at all and perhaps a bit of comment on product cycle of where you think you are.

Mike: Yeah, there's a lot there about sort of what's happening with megatrends and the tailwind, how strong there. When you start with the problem, you think about greenhouse gas emissions and about 40% of the greenhouse gas emissions in the world actually happen from – with buildings. And if you go to a developing market, it's going to be closer to 80% of greenhouse emissions happen through buildings. And within buildings, about 40% of that is emitted from HVAC systems in buildings. So 15 to 30% of all the greenhouse gas emissions in the world are emitted through HVAC systems in buildings.

So this whole notion about reducing greenhouse gas emissions through HVAC systems and conserving energy and conserving water in buildings, as an example, is a really, really big idea, where we've been able to get a premium and grow share. So if you look back and quantify our growth rates versus sort of the competitive profile, we've grown at about double the growth rate of the industry for at least three, four years at this point in time. And if you go to places that are particularly conscious of greenhouse gas emissions – and I'm thinking here about Western Europe and even China – they've been very proactive around pulling through those solutions.

Now if you move to industrial, it's about 30% of greenhouse emissions are through industrial processes. And actually, the systems that we put into industrial processes, air compressors, are one of the biggest emitters again. So again, the same engineering challenges, same problems we have around integrating refrigerants and motors and controls and drives into these systems is a competency of the company. And it's how we deliver efficiency into the product to reduce energy demand, and it's also how we engineer in refrigerants that don't use chlorine and fluorine as part of the refrigerant base. So that's critical for us.

And if you go to transportation, which is the remaining piece of this, is actually quite interesting too, because we've found that we've had tremendous growth putting auxiliary power units on class 8 vehicles or class 8 trucks, so that you don't have to idle the engine, which you can't do anymore. And so you think about a truck driver stopping at a stop for the evening, had to run his engine in the past and if it didn't have an auxiliary power unit, you would have to then live without sort of the comfort and air-conditioning in the cab. And so we've had this tremendous growth opportunity of auxiliary power units. Or generating refrigeration, creating refrigeration units for trucks, as an example, that use less fuel or that are electromechanically engaged with the vehicle, they're integrated electronically into the vehicle as well. So not even using diesel engines. The electrification of refrigeration in trucks and in vehicles has been a big part of what we're doing.

Again, it all ties back to this sustainability trend around releasing greenhouse gas emissions and energy efficiency, reduction of fossil fuels.

Andy: So I want to – let me follow up with you on that TK business for one second, because it doesn't get a lot of questions. But you have a lot of interesting things going on there. You mentioned APUs. I think your Chinese transport business has been growing really quickly. So like when you look at the overall business, I know you've called it kind of flattish, again, given what ACT is saying about refrigerated trailers. But it seems like there's an exorbitant amount of growth initiatives that you have in that business that could help you offset, if the US trailer market is slow.

Mike: Yeah, the Thermo King business is actually now eight real businesses. People thought about it as being the North American trailer business for class 8 trucks.

But we've got a truck business; we've got sort of a products and service component; we've got an air freight business; we've got marine; we've got bus; we've got rail. What am I missing? Something. Anyway, there's eight of it. And so it's a pretty diverse business. And so last year where you had the North American trailer business declining, say something like 10%, we have the APU business growing 15 or 20%, as an example. Or we had Western Europe growing. We grew the truck business.

The rail business is interesting for us, particularly in Europe, where we're doing a lot of high-speed rail work now with the TK product. So we just are building out a more diverse platform for TK.

Andy: Right. So I know that the US trailer business is a big business, but if you think about those eight businesses, are the majority of them or seven businesses growing in 2018 you think?

Mike: Yeah. I mean so if you think about the North American trailer business declining say 10%, the vast majority the other businesses will grow. And we'll get it back to about flat. North America was about 20-ish percent of the TK business. But we'll get the rest of them to grow at a point where it'll be flat to maybe up a little bit.

Now some of the larger bigger rail contracts that we've doing were booked last year and this year and then they'll actually deliver in 2020 and 2021. So we're really building a longer-term growth plan through a lot of that rail work we're doing.

Andy: So the other question – just following up on his question, because I think it's interesting. You and I have talked about sort of a controls business that you have, which I think I remember you telling me it was about a billion dollars in your commercial business, basically. Update us on that business because I think it's a good growth driver for you going forward.

Mike: Yeah and it's very hard to count now because controls are so integrated into every single thing that we do. It's very difficult to break it apart. And so we used to really measure that. But I would say that today we are really second to none in terms of the technology, the ability to integrate across industrial systems around commercial systems, even around residential automation in homes. Now it connects into other home systems. We're at the – it's sort of a leadership role there. We were the first and we're still the largest around doing wireless controls and retrofits in buildings. And so that's been a boon for us. So we've been able to grow the controls business at a double-digit rate now for four or five years, the measurable controls business.

But it used to be that the attachment of controls into our products might have been 20 or 30%. Today you could think about it as being 100%, controls going with systems and with hardware.

Andy: It's a great deal. So let me ask you about residential HVAC for a second. Like it seems like it was growing significantly for the last few years and maybe slowed down a little bit last year toward the end and then sped up again in the 4th quarter. So is this just a mid single-digit grower for a while here? Like any sort of things that you'd highlight in terms of product growth? Anything going on, hurricane impact?

Mike: We've had really good growth in residential for several years now. We really didn't see any hiccups along the way. We've been growing above the market I want to say 14, 15 quarters where it's been clear that we've gotten quite a bit of share growth, share gain there. That's continued. Part of this goes back to the product growth teams and some of the segmentation work that's been done. Historically we didn't do a lot with new construction and builders. We're doing a lot more. We also determined there was a segment of the market where it's owner non-occupied. So these would be vacations and second homes where for whatever reason we didn't have the channel presence that we needed. And so we were able to find and develop some of that.

We've also done a lot on the digital front, being able to really create more transparency to consumers around the ability to figure out exactly what an installed cost would be for a unit in their zip code or within their – proximate to their home, and to be able to help them make choices around the paybacks on those systems. And so we were the first – I think maybe still the only that work with our dealers and distributors to put actual consumer pricing out into the marketplace. And our leads have been up I want to say 30 – leads are up like 30% and our closure rate is up 30%, by being able to do that. So we've invested a lot into the digital aspect of residential to connect to the consumer and as well, segmentation of the market.

Andy: And you're talking about Trane GO which you introduced basically early last year, right?

Mike: Trane GO's part of it, but it's also the ability to get on our website and be able to figure out your zip code, how to determine what you think you might need very simply and consumer terms and give you a fairly tight range of installed pricing.

Andy: So despite other competitors saying other things, you think you're still gaining share in that business?

Mike: There's no doubt about that. That's the one – there's only a couple businesses where third-party reporting share happens and AHR does that, and clearly we've had tremendous share growth in the last three or four years. And by the way, too, part of that is we refreshed the whole product line. We didn't talk about that now; we finished that really in 2016. We have a little bit of work to do in the furnish platform. But the whole product line's been redone. And then if you remember, if you go back to the old days of Trane, Trane never really participated in the low end of the market. Well, we've been participating heavily in the low end of the market now and have gained a tremendous amount of share just by virtue of participating at the opening price point and opening efficiency levels of the markets. So we've covered the entire market, we've segmented a couple of places that we didn't penetrate greatly. We refreshed the entire product line and we've created a much more friendly consumer digital transparency model that's generated more leads and higher close rates.

Andy: So I should ask you about if the current administration pushes through with its protectionist policies, like what does Ingersoll do? Like what's the reaction that you guys can take if that happens?

Mike: 99.5% of the steel that we buy, that we use in product in the US is US Steel, it's from the US mills. So we've got contracts that will extend out a while there. I mean but look, if you take 25% of the supply out of the market, clearly, it's a pricing opportunity for steel producers. And so there's going to be an increase in steel prices. And for us, it's trying to figure out how much and how quickly to get in front of that. And to make sure that competitively that we're not out of whack by virtue of being too aggressive or missing some of the opportunity that we need to cover with steel. But it's going to be a little bit choppy figuring out where steel prices go.

Andy: Yeah. Anybody have any other…

Mike: By the way, that input – and it's the same input for all of our competitors, so it's not…

Andy: Right, you're all on a level playing field in that sense and over time you can push it through. But let's just hope it doesn't…Any other questions? Go ahead, Seth.

Q: Can you guys talk about your outlook for the VRF market in the US and what your competitive positioning is within that market for supply, particularly given the JV you guys did with Mitsubishi a couple months ago?

Mike: Yeah, we've been growing the last few years 40, 50% per year. So we've been growing quite rapidly there. Our take on VRF and ductless is that it's one of many technologies that fit in different environments in the buildings and if you want to truly be a global HVAC player, you're going to have to have all the technologies duct to duct with supplied commercial, etcetera, control, service, you name it. So for us it was a matter of getting our channel turned on to the ability of having ductless product.

Now we've produced ductless product in parts of the world. We've sourced it from multiple suppliers over time. We're fairly agnostic on that, whether we would make it or we would buy it over time. But Mitsubishi has got great technology and as we would test various VRF producers over time – we might have tested 12 in our labs at one time for reliability, energy efficiency, greenhouse gas, refrigerant use, so on, so forth – Mitsubishi would always have been at the top of that list. So I think some combination of just – as we've been growing our market share and as Mitsubishi thinks about long term how important the channel actually is, in selling VRF – I mean here we are growing 40, 50% per year for the last several years with sourced product. So clearly the channel matters and it's how to apply that.

So it was really taking the best product, Mitsubishi, with the best channel, which is Trane, putting it together and offering it to our customers. And there's something really powerful about going to see a customer and laying out four or five different system ideas for them, based on lowest cost or total cost of ownership or max serviceability. How long are they going to own the building? What's it purpose? Will it change? Laying out a range of options – when you have all the options, you win a lot of work. It's when you don't have those options that customers are a little bit suspicious as to why it is you've got holes in your product offering.

So you find a lot of Asian VRF companies that don't have an applied business or a ducted unitary business or a controls business or a service business. And you find a lot of sort of more Western companies that don't have a strong VRF business. So this is a long-term idea about putting together a product with channel.

Andy: Maybe just one more from me. Like we've going back to industrial, you've got three distinct business lines there, basically industrial products, your Club Car business and your compressor business. And it seems like there's a lot of businesses that have been kind of weak for a few years, but have very high margin opportunity. So and you've talked about the restructuring that you've done. Seems like very strong incremental margin possibility as businesses like industrial products start to improve.

Mike: Yeah, so our fluid management business has always been part of that mix and it's been strong and growing and really profitable over time. So that's the sort of one exception. Material handling though is one that comes to mind where that business went from $150 million to $30 million and something like 30% op margins at the top and a loss at the bottom. We've seen that kind of come back slowly over time.

We run a great tools business. It's a niche tools business, it's one of the highest margin tools businesses out there. So it's difficult to acquire more because you're typically acquiring something at a much lower margin than our own business. And then Club Car, the golf dynamics haven't changed. We've got 50% of the global golf market. What changed for us is we launched a consumer vehicle about a year ago and we sold more of those in the first quarter than we thought we would sell in the whole year. And we sold more in a whole year than we thought we'd sell in three years. So we're on to something here around the consumer vehicle. So we've had nice growth at Club Car. And again, I think it's the highest margins of any small vehicle or electric vehicle maker out there. We've got the highest margins there. So we're enjoying good growth at Club Car.

Andy: Excellent. Well, thank you very much for joining us. Very much appreciate it.

Mike: Thanks…

Andy: Take care.

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