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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ingersoll Rand first-quarter 2016 earnings [call]. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Ms. Janet Pfeffer.

Janet Pfeffer *- Ingersoll-Rand plc - IR*

Thank you, Lauren, and good morning, everyone. Welcome to Ingersoll Rand's first-quarter 2016 conference call. We released earnings at 6:30 this morning and they will be posted on our website. We will be broadcasting, in addition to this call, through our website at IngersollRand.com. And that's also where you'll find the slide presentation that we will be referring to this morning.

The call be recorded and archived on our website.

If you could 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 vary from anticipated. And our release also includes non-GAAP measures, which are explained in the financial tables at our news release.

To introduce the participants on this morning's call, Mike Lamach, Chairman and CEO; Sue Carter, Senior Vice President and CFO; and Joe Fimbianti, Director of Investor Relations. Please go to slide 3 and I will turn it over to Mike.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Thanks, Janet. For those of you who don't know, that's Janet's last time she will need to read the Safe Harbor statement. She's retiring at the end of this month after a brilliant career here at Ingersoll Rand. We're going to miss Janet greatly and, Janet, we want to wish you and Ron all the best in your retirement.

So with that, we delivered a very strong quarter that exceeded EPS guidance and reflected excellent execution across the whole company. The quarter really demonstrated the consistency we are seeing in our strategy, which is to deliver sustainable, profitable growth. I would highlight a few areas here.

First, we are leading in our markets in the innovation and development of energy efficient, reliable, and sustainable products and services. Second, we are deepening the penetration and maturity of our operating system and we're delivering operational excellence across our businesses. Third, we are maintaining a disciplined and dynamic approach to capital allocation.

Finally, as I've said before, critical to any sustained culture transformation, our employees are engaged. Our scores are beginning to increase across the Company. Employees continue to see Ingersoll Rand as a great place to work, which in turn leads to a better customer experience and that ultimately delivers shareholder value.

Our performance in the first quarter gives us confidence to raise our full-year guidance, essentially flowing through the first quarter operational beat.

This morning I'm going to give you an overview of what we are seeing in our end-markets across the globe and use the opportunity to talk a bit about how we are performing against this market backdrop, and give you some color on how we are progressing for the year. I thought it would be useful to highlight where our performance maps specifically to our overall strategy. Then I'm going to turn it over to Sue and she will take you through the quarter and our revised guidance for the remainder of the year.

Over the past 16 weeks, I have spent the majority of my time on the road with leaders across the Company. During that time I have met with customers from many of our business units across vertical markets and regions of the world. I have also spent considerable time with our customer-facing employees: service technicians, sales teams.

And as always, I've spent time inside our operations talking with the people who are building and engineering our products to gain their perspective on the maturity and momentum in our operating system. And I have witnessed good momentum in the deployment of our operating system and remain confident that there is still a long runway of opportunity in front of us.

With that, let's go to slide 4. I'm going to note that all my comments are on an organic basis, so they are going to exclude currency and acquisitions. I will turn first to the North American climate segment, where our business remains strong overall and we expect this momentum to continue for the balance of the year.

In commercial HVAC, recent Put in Place data continues to support mid-single-digit growth and we believe this should continue through at least 2017. We continue to see strong growth in the retail and office markets. Within the institutional markets, education and government markets are also strong.

We saw low teens revenue growth in the quarter, coupled with high single-digit bookings growth. Want to point out, too, that we expect to see a record for quarter two with commercial HVAC North American bookings, which should be up approximately 25% over quarter two as a result of some large institutional project awards. We expect to continue to outperform the overall market for the balance of the year.

Additionally, we are executing well on the volume and saw excellent operating leverage in the quarter. Growth here is a direct reflection of the constant investment we've made over the past years and we are seeing growth specifically in the areas where we have invested, whether in product growth teams, products, or channel. As in 2015, we are beginning quarter one of 2016 with double-digit growth in our controls and service business. With over 4,300 company-direct service mechanics and technicians, we believe we are now the largest provider of mechanical HVAC service to commercial customers in the world.

Additionally, when we breakout our critical growth programs from the base business, we are seeing mid-teens growth in these programs. Overall execution has been excellent. With clear discipline, the management team is running the business through our operating system.

Like commercial, our residential HVAC North American business is likely to continue to outperform the market as well. We are proud of this performance and what's ahead for this business.

I'm occasionally asked “what do investors misunderstand about Ingersoll Rand”, and in reading some of the sell-side reports I think there is some misunderstanding about the success we have had in the residential HVAC business. So I want to lay out some of the facts for you.

According to AHRI data, we have increased share each quarter over the past six quarters, including the first quarter of 2016. For all of 2015 and continuing into quarter one of 2016, we have a residential HVAC business with mid-teens EBITDA margins, which makes it accretive to the segment and IR as a whole.

Quarter one brought mid-teens bookings growth for the second consecutive quarter and mid-single-digit revenue growth and very strong operating leverage. Our market outlook remains positive. We forecast 4% to 5% unit growth for the industry and we anticipate our revenue growth to be in the high single-digit range for the year.

The residential team has done an outstanding job implementing our operating system across its full footprint. The team is running the entire business in a full product growth value stream and it's showing in the execution. And strategically, we've executed well on our complete product refresh, repositioning of our channel strategies and in our connected home strategy, where we have a profitable business platform, robust diagnostic capabilities, and nearly 200,000 Nexia enrollments to date.

Additionally, connected home is a key driver of our residential controls business, which has more than doubled since 2011 and continues to grow at around 25% annually.

Shifting to North American transport refrigeration markets, as usual, the management team did a great job in the quarter and managed to improve their margins with high operating leverage. North America continues to hold up well, especially in the truck and trailer market. Our current view of truck and trailer has improved from our original view of the market from earlier this year.

ECC raised its trailer units forecast to 47,000 units, which is up about 1% versus last year. Their prior forecast was for the market to be down 10%. We view this market data as being a bit aggressive, but we have raised our own forecast approximately 45,000 units and you may recall that our own prior forecast was 39,000 trailer units. So even though we do expect the market to be down over the record performance from last year, our view has improved from when we spoke in February.

Our truck refrigeration business is also solid and the overall market for Class 3 to 7 trucks is showing moderate growth. And we continue to pursue growth strategies in rail, bus, and auxiliary power units to continue to balance North American business into additional vertical markets.

As we look toward the HVAC and transport refrigeration markets in Europe, the Middle East, and Africa, we plan to continue to outperform the market in the year ahead with additional new product and service launches planned in the year and excellent management teams executing on the ground, delivering good margin expansion and cash conversion growth.

We continue to do very well in Europe with organic bookings in the high single digits against the flattish market backdrop. We are seeing excellent uptake on the new product introductions, and like North America, the service business also grew at a double-digit rate.

I visited our FRIGOBLOCK team and operations a few weeks ago. The progress made in the adoption of our operating system was absolutely amazing. With our FRIGOBLOCK acquisition, we've taken a step forward now in integrating hybrid electric technology into our product roadmap. The acquisition has been a great success for us.

Middle East markets are certainly softening. We are seeing a contraction on the number of building projects planned and we expect this to continue for some time, as lower oil prices are driving an investment pullback.

Moving to Asia Pacific, it's difficult to know if markets have reached an inflection point in China. The data is mixed and it's not that consistent month to month. Our performance, though, has been deviating from the market in a positive way due to investments in products and the focus we have put on increasing our direct channel market investments to achieve fuller market coverage.

Climate bookings in China were up mid single digits in quarter one and up low teens for Asia Pacific as a whole. Our strategic focus on growing the service business continues to be successful in Asia, too, achieving a mid-teens growth rate in the quarter. We are also seeing strong mid-teens bookings growth in transport refrigeration equipment as the market continues to grow and our local engineering and manufacturing teams continue to tune the products to local preferences.

Strong growth outside China is being driven by growth in Thailand, India, and our performance in Singapore, along with good transport refrigeration growth in Australia.

So concluding the HVAC and transport refrigeration geographic update will take us to Latin America, where markets remain very volatile with strength in smaller, but fast-growing, markets in the Dominican Republic and Panama, but deteriorating conditions in Brazil, Venezuela, Ecuador, and Argentina. The additions, though, in Mexico remain fundamentally sound. Organic revenue for the region was flat with low teen increases in HVAC equipment.

So we are pleased with our performance in the market. We have expanded margins in a very tough and volatile Latin American marketplace. Let's move to slide 5.

Here we look at the end-markets for the industrial segment of our business and I'll start with an overall comment that our compression technologies business bookings and revenue were down organically low single digits in the quarter, with equipment essentially tracking the overall market but with service up mid single digits. Again, we are focusing on growing our service businesses across the enterprise and have been executing well on that strategy.

In North America, US manufacturing capacity utilization remains relatively low, hitting 75% last quarter, which is the lowest point over the last 12 quarters. Large equipment CapEx, typical for what we would see for large -- centrifugal and large rotary air compressors, historically rebounds to utilization readings above 80%.

On one visit I had the opportunity to meet with the major customer that has been around for decades building small-scale LNG plants that range from 50,000 to 500,000 gallons per day. I asked this PhD physicist what the most reliable leading indicator he would look for in his end-markets and he responded very simply by saying it's when the telephone rings. And, fortunately, he did say the phone is beginning to ring, as is ours, in that area.

But whether it's small-scale LNG systems or large or air compressors, our sense is that even early activity in large machine quoting activity will probably have little impact on large machine deliveries in 2016.

To give you a little bit more color on this for the North American market, you look at compressors between 5 and 400-plus horsepower. The market for small compressors, those between 5 and 15 horsepower, is up roughly 10%. But compressors larger than 250 horsepower are down more than 30% in the first two industry reported months of the quarter.

Smaller compressors are quicker book and turn with inventory restocking occurring in that category. We also believe we are seeing some restocking to the wholesale channel in our tools and fluid management business. But our material handling team has done a great job managing their business, essentially holding the business to breakeven on a 50% reduction in revenue.

So again, across the business management team doing a very good job; exhibiting strong cost control, execution discipline on the backdrop of continued declines in projected global market growth.

In Europe, we are seeing increased exports to industrial production across Western Europe. Eastern Europe continues to be fairly weak. And for Asia Pacific the current environment continues to experience pricing pressure across the region, but we are cautiously optimistic to see if we have reached an inflection point as manufacturing indices signal pockets of improvement in countries such as China, Thailand, Indonesia, and South Korea. China's power consumption index has also shown growth in the first two months of the year, and India is seeing strong market growth in verticals like textiles, pharma, and food and beverage.

So rounding out the geographic update for industrial segment, we will go to Latin America, where volatility in the markets there across the region continues to be driven by political instability. This has contributed to reduced investment in key verticals such as energy, oil and gas, mining, and metals. However, other verticals, like food and beverage, pharma, and textile, remain with positive outlooks.

Before turning it over to Sue, let me conclude by saying again that we had an excellent quarter. We continued to invest in the products, service offerings, and footprint of the Company, while using our operating systems to deliver well above industry average results.

Now I will turn it over to you, Sue, to cover the financial review and guidance.

Sue Carter - ***Ingersoll-Rand plc - SVP & CFO***

Thank you, Mike. Let's go to slide 6. Let's begin with an overview of the first quarter.

Q1 was a strong operational quarter across all of our businesses. As you heard in Mike's comments, end-markets continue to be strong in climate and weaker than expected in industrial. Our business operating system guided us through good execution in our factories and in our cost centers.

Our focus was on good operating results in a low growth environment. Our results show that we did not let costs get ahead of revenues in the quarter.

Revenues grew slightly on a reported basis and were up 2% organically. The Climate segment grew 4% organically. Industrial was down 5%, both on a reported and an organic basis. HVAC revenues grew in each of our Climate businesses, led by commercial and residential, in North America.

Revenue in our Industrial businesses declined in the quarter, with tough comparisons to the first quarter of 2015. Large centrifugal compressors and other industrial equipment were weaker than our estimates, but Club Car performed as expected with low year-over-year growth.

Our adjusted operating margins grew 140 basis points year over year with organic operating leverage of 75%. Adjusted segment margins grew 150 basis points, which shows the alignment between our operating performance and our Q1 results. Our strength was in price, direct material deflation, and mix.

Earnings per share grew 32% year over year, exceeding our prior guidance. In Q1, our capital deployment actions included repurchasing $250 million of shares and we increased our dividend by 10%. We completed the sale of our remaining interest in Hussmann on April 1, 2016. All impacts will appear in the second quarter.

Please go to slide 7. I've included a slide to reconcile our Q1 EPS actual results with our prior guidance. I've said on a few occasions this morning that our results were the result of good execution and operational performance.

Price and direct material deflation were the largest drivers of the margin expansion in Q1. This is an area where everything went bright in the quarter, i.e., there was no breakage. Price was positive in both segments and direct material deflation was also very positive to our guidance.

Cost savings and controls were a positive $0.03 for the quarter. Each of our businesses and corporate functions have favorable variances to start the year as we controlled spending while we evaluated our end-market volatility.

Currency, share count, and other income were about $0.01 each. We opportunistically repurchased shares earlier in the year than we would normally and currency was a bit favorable to our guidance range.

Restructuring was favorable to our guidance by $0.03 for the quarter. This is timing. We have identified projects to execute and continue to work on restructuring projects that have good returns and shorter paybacks, and we will spend the remaining $0.03 throughout the remainder of 2016.

Please go to slide 8. Orders for the first quarter of 2016 were up 4% organically. Climate orders were up 6% organically. Organic global commercial HVAC bookings were up high single digits, led by high-teens growth in North America unitary and double-digit growth in Asia applied.

We continue to see excellent growth in service, control, contracting, and parts, with double-digit growth in the quarter. Regionally, for commercial HVAC, we saw high single-digit booking increases with a high single-digit increase in North America and Europe, up low teens in Asia, and with declines in both the Middle East and Latin America. Residential bookings were up 17%.

Organic transporters were down low single digits with low-teens growth in truck and trailer in North America and Europe that were offset by lower container orders. Orders in the Industrial segment were down 5% organically. We saw a low single-digit order decline in compression equipment, a low-teens decline in other industrial products, and a mid-single-digit decline in Club Car.

Performance in compression technologies was mixed in the first quarter. We had an improvement in small compressors, oil-free and some of our component businesses, like dryers and filters. We also had a small improvement in our aftermarket business. These gains were offset by declines in core industrial compressors and by large centrifugal equipment.

Please go to slide 9. This slide provides a direct directional view of our segment performance by region. In our climate segment, which was up 4% in the first quarter, we saw solid performance in North America and flattish growth across Europe, Latin America, and Asia. The Middle East was the only region that declined within the climate segment, forcing a contraction in the number of building projects planned in the Middle East and would expect this to continue for some time as lower oil prices are driving an investment pullback.

Our Industrial segment performance in the first quarter, which was down 5%, is representative of the volatility that continues across the globe in the industrials market. Strong performance in Mexico contributed to double-digit growth in Latin America. We also saw growth in Europe, while Asia was flat and North America was down high single digits.

Overall, our regional performance for the first quarter trends with the end-market summary that Mike provided us earlier with a strong start in North America. Industrial segment performance is expected to trend with the market. We're planning on expanding margins in a down market in the second half of the year through productivity gains and cost control.

Please go to slide 10. Operating margin on a reported basis increased 160 basis points from 5.9% to 7.5% from the first quarter 2015 to the first quarter of 2016. Mix was favorable for the quarter 40 basis points, largely offset by unfavorable volume and currency.

Net pricing versus direct material inflation was the largest driver of margin improvement in the quarter, favorable by 160 basis points. Price realization was achieved across both the climate and industrial segments, which was higher than expected, and commodities remain deflationary.

Productivity versus other inflation was positive 10 basis points, driven by ongoing productivity actions partially offset by other inflation. Year-over-year investments in other items reduce margins by 20 basis points. In the box you can see that was comprised of 40 basis points from incremental investments, 20 basis points from higher restructuring costs, which was partially offset by 40 basis point improvement related to the absence of acquisition-related step-up costs incurred in 2015.

Overall reported operating leverage exceeded 100% in the quarter as we expanded margins in a low growth environment.

Please go to slide 11. Our climate businesses had an excellent quarter in Q1. Adjusted segment income and EBITDA margins improved by 280 and 260 basis points to 9.8% and 12.4%, respectively. Increased volumes, favorable mix, price, direct material deflation, and productivity offset other inflation and investment spending. The leverage for the climate segment was 118% for the quarter. Revenues for the quarter were up 4% organically.

Commercial HVAC organic revenues were up mid single digits, led by mid-teens unitary equipment shipments in North America and low-teens parts and service revenue in North America. Europe had low single-digit equipment growth and high single digits in services, contracting, and parts. The Middle East had parts and services growth offset by declines in equipment sales.

Residential revenues were up mid single digits in Q1, with very strong leverage and significant margin improvements.

Transport organic revenues were down slightly, but this does not tell the whole story for Q1. North America truck and trailer organic revenues were up mid single digits and European truck and trailer organic revenues were up in the mid-20% range. Marine container organic revenues declined more than 60% in the first quarter, reflecting a soft start at various box builders for 2016.

Please go to slide 12. First-quarter revenues for the industrial segment were $681 million, down 5% on an organic basis. Compression technologies and services organic revenues were down low single digits versus last year.

Club Car organic revenues were up slightly versus prior year. Organic revenues in the Americas were down high single digits, while revenues in Europe, Middle East, and Africa were down low single digits and were flat in Asia.

Industrial's adjusted operating margin of 9.6% was down 230 basis points compared with last year. Price and direct material deflation were positive, productivity offset other inflation, and volume and mix were unfavorable.

Please go to slide 13. First-quarter free cash flow of negative $46.3 million was favorable to prior year by $135 million. Strong operating income improvement and improved working capital performance were the primary drivers of the favorability.

For the quarter, working capital as a percentage of revenue was 6.2%. We had strong collections in the quarter with our days sales outstanding improving 1.3 days over the prior year and days payable outstanding improving 0.7 days. Inventory is on plan for the quarter and we are well positioned to serve our customers as we enter the heavier volume second quarter.

Capital expenditures of $40 million are lower than prior year, due to capitalization of our ERP systems cost in the first quarter of 2015.

Please go to slide 14. Capital allocation is a key area of strategy for us. We continue to invest in our businesses and I think you'll agree that our results show the value of our product refresh strategies and our operational excellence programs, which are a part of our business operating system.

We raised the annual dividend 10% in early 2016 with a goal of maintaining a dividend payout consistent with our peers. We have an M&A pipeline that reflects our desire to add to our products, technologies, and channels as outlined in our strategy. We are focused on building long-term value.

We bought shares to offset benefit program dilution in the first quarter at an average share price of $51.10.

Please go to slide 15. As always, our intention is to give you the best view of what we are seeing in our end-markets sitting here today and how that translates to our revenue guidance for 2016. We've broken it down by major end-markets and geographies.

As you can see by the variation of colors and symbols, our end-markets are seeing a wide variation in trends. We also added a column to show you our current versus prior thinking on organic revenue.

North American commercial HVAC and residential HVAC, as well as European transport and commercial HVAC markets, are generally positive, while global industrial markets have declined. We are forecasting transport markets in North America to be flat. Our forecast for our North American trailer volume has shifted from declines of 15% to down slightly for the year.

Asian HVAC markets are expected to be flat to down and industrial markets in Asia remain under pressure. Golf car markets are slightly down, offset by increases in utility vehicle markets.

What the growth forecast shows here are on an organic basis. We are forecasting mid single-digit growth in commercial HVAC in total; high single-digit growth in residential HVAC, which is essentially an all North American business for us; and a small increase in transport. We expect compression-related products and other equipment to be down high single-digits. We expect Club Car to be up low single digits.

Please go to slide 16. Aggregating those market backdrops, we expect our reported revenues for the full year 2016 to be flat to up 2% versus 2015. Overall foreign exchange will be a headwind of about 2 percentage points.

While these revenue outlets do not show a total change, the segment numbers reflect important updates. We expect climate revenues to be up 2% to 4% on a reported basis and 4% to 6% organically. For the industrial segment, revenues are forecasted to be in the range of down 4% and down 6% on a reported basis and down 2% and down 4% organically.

For operating margins, we are excluding restructuring costs to get adjusted margin. We expect climate-adjusted operating margins to be in the range of 14% to 14.5%. We expect industrial-adjusted margins to be in the range of 12% to 12.5%.

For the enterprise, we expect adjusted operating margins of 11.8% to 12.3%, a 30 basis point improvement from our prior 2016 guidance and a year-over-year improvement of 70 basis points. Operating leverage would be about 40% on an organic basis for the year.

Please go to slide 17. Transitioning to earnings, the reported earnings per share range is estimated to be $5.39 to $5.54. Excluding restructuring and the Hussmann gain, the range is $3.95 to $4.10, an increase of 6% to 10% versus 2015 and a $0.13 increase from the midpoint of our prior guidance range of $3.80 to $4. As a note, for 2016 currency is a headwind of about 2% of revenue. This reflects a full-year tax rate forecast of 24% to 25% and an average diluted share count of 261 million shares for the full year.

Second-quarter 2016 revenues are forecast to be up 2% to 4% on a reported basis and 4% to 6% organically. We are projecting climate revenues to grow mid single digits in Q2 and industrial to decline mid single digits on a reported basis.

Reported second-quarter earnings per share are forecast to be $2.75 to $2.80. Back out $0.01 of restructuring and the $1.49 Hussmann gain to get to an adjusted range of $1.27 to $1.32. For the full year 2016, we expect to generate adjusted free cash flow, which excludes restructuring and the Hussmann proceeds, of $950 million to $1 billion.

With that, I will turn it back to Mike for a few closing comments.

Mike Lamach - ***Ingersoll-Rand plc - Chairman & CEO***

Thank you, Sue, and I will be brief. As I started out this morning, we had a strong quarter. We improved operating performance in a volatile environment. We realized price in both segments. We achieved outstanding leverage and improved our cash flow.

We are growing in the areas where we put a strategic focus. There's clear evidence the discipline we've created in our operating system is gaining momentum and I am confident in our management team. And we feel good about our forecast for the remainder of the year.

So with that, Sue and I will take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Josh Pokrzywinski, Buckingham Research.

Josh Pokrzywinski - ***Buckingham Research Group - Analyst***

Good morning, guys. Just on the price cost equation here, clearly a pretty strong contribution in the first quarter. Can you help us with how that dimensions out, just based on purchasing agreements and hedges you already have in place, over the balance of the year?

Sue Carter - ***Ingersoll-Rand plc - SVP & CFO***

Absolutely. So you're right; the 160 basis point spread between price and direct material deflation was a strong start to the year. What we expect for the first half of the year is a strong performance on a year-over-year basis, because last year we were still in an inflationary environment in the first half of 2015.

So I think the second quarter will be slightly less favorable than the 160 basis points, but what we have adjusted the full year to now, Josh, is 80 basis points of favorable spread between price and direct material deflation. And so the first half/second half reflects basically the year-over-year compares to last year.

Then as we look at the 80 basis points; Q1 performance was driven by strong price performance and we expect some of that to continue in Q2, as well as strong performance from the material side. Price is one of those areas where I think you never want to reach out and assume that you can continue to get price at a great execution level throughout the year in a strong deflationary environment.

But as it comes to the commodities themselves, here's what we expect. We have about 70% of our copper locked in for the year through our contracts. We expect that copper and aluminum are going to be fairly stable in terms of what happens throughout the rest of 2016. You will see some ups and downs, but generally I think those are going to be pretty stable.

We are seeing a slight uptick in steel, but I don't think that's going to impact us in 2016 because of the way that our contracts are written. We wouldn't start to see that until the very end of the year. So I think our supply base and our commodity teams have done a great job of getting us the deflation that you are seeing in the results. I expect that to continue.

In addition, all of the Tier 2 pricing really seem to come through in Q1. So I think we had a great environment and I think we will have a great result. If you recall, we had given you a look at the full year, I think 30 to 40 basis points, when we last gave guidance. And as I said, we took that up to 80 basis points favorable spread for 2016.

Josh Pokrzywinski - ***Buckingham Research Group - Analyst***

Great, that's helpful. Sue, just as a follow-up, I remember last quarter you talked about some of the toggles for the tax rate. Specifically mentioned intercompany debt. Could you just maybe update us on where we're at for the total tax strategy in light of some of the treasury rulings?

Sue Carter - ***Ingersoll-Rand plc - SVP & CFO***

Right. I think the first way to start out that question, Josh, is to say that we have looked at all of the proposed treasury regulations and we don't expect those regulations to have an impact on our effective tax rate in 2016. As we think about the tax strategy that I talked about getting us into a low 20%s type of tax rate on an ongoing basis, I also don't expect those regulations to have an impact on us getting into those areas.

The reason that I say that is when we are looking at our tax strategy, intercompany debt is one element of some of the things that you can do. Trading hubs, procurement hubs, making sure that your transfer pricing is absolutely aligned, and other tax efficient projects can help us get to where we want to go.

We have also been looking at a project that helps us look at effective tax rates by each of our SBUs so that we are all working on taxes. We do our plans and we do our forward looks, and I think that will help us with an overall tax strategy that doesn't get impacted by the proposed treasury regulations. Will obviously continue to look at those and make sure that we understand all of the derivative related impacts that might be out there from the regulations, but no impact on the rate and no impact on our strategy going forward.

Josh Pokrzywinski - ***Buckingham Research Group - Analyst***

Perfect. Thanks for the answer.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - ***Goldman Sachs - Analyst***

Thanks. Good morning, guys. Nice quarter. I guess my first question may be starting on industrial, where you did see decelerating trends.

I noticed that you didn't take up the restructuring at all for the quarter. And if I recall correctly, there were some cam shipments that were expected to be released in the beginning part of this year. So I'm just wondering is there still opportunity for further action in industrial? What's the strategy at this point?

Sue Carter - ***Ingersoll-Rand plc - SVP & CFO***

So the $0.02 of restructuring that we spent in Q1 was related to industrial. We are continuing to work on restructuring actions for the remainder of the year and those are going to primarily be in industrial. So we called out in the guidance about $0.01 for each of the next three quarters.

I think what's important about the restructuring and the way that we have looked at it is that the restructuring really does have a payback within 2016, so we fully expect to realize the benefits of that $0.05 of restructuring. That is also what will help us with my comment earlier in my prepared remarks about industrial margin improving in the back half of the year. So some of that productivity kicks in and some of the restructuring actions that were actually started almost a year ago are going to kick in.

Now on the ECC side, we did have some shipments that had pushed out of Q4. We actually had some shipments that also pushed out of Q1 into Q2. But the ECC story is an interesting one. If I look at first-quarter bookings in total, bookings in total for the ECC business are actually up significantly in the first quarter. The majority of that is going to be in the products that are outside of the large centrifugal compressors. Those are really coming down, but --.

Bookings are up, which is good. The revenues that we are seeing are really being impacted by the large centrifugals, but also importantly, as we think about ECC and that business, we expect to really be on track with the revenue and the cost synergies for 2016 that we had outlined. So lots of moving pieces in the business, but I think you see some strength in the normal product, in the aftermarket, in some bigger weakness, and some shipments moving around in the large centrifugal compressors.

Mike Lamach - ***Ingersoll-Rand plc - Chairman & CEO***

Joe, remember too that I think that we have been serial restructurers now for years, and that's both qualified and nonqualified. So we are always improving the cost base there.

When you look at the type of paybacks that we are seeing in that business, we're getting numbers like seven years, which is indicative of doing a good job around running the plants and the utilization we've been able to achieve in our plants. You couple that with the lead times to bring on new capacity when the markets return and that's a 24- to 30-month process, particularly in the machining centers that we would be moving or upgrading to do that.

We don't want to get whipsawed in doing any of the larger restructuring when this thing turns around, because the margins come back very strong when the business volumes come back as well. So we are being cautious.

Now we are always looking at the ideas that are on the table. If the underlying real estate values change or if tax incentives change from one location to another, it could swing something like that, but we are very cautious about looking at an upswing in the lead time to bring capacity on when you need it. We don't want to ever be in a situation on an upswing in the market to not have sufficient capacity at that point in time.

Joe Ritchie - ***Goldman Sachs - Analyst***

That makes sense, Mike. I guess maybe my follow-on question; I just want to make sure I heard this correctly. Did you say that Q2 North America commercial HVAC bookings were expected to be up about 25%?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Yes, that's correct.

Joe Ritchie *- Goldman Sachs - Analyst*

Is that the reason for the organic revenue guidance raise?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

No, it's more of an impact in 2017. It's got a little bit of a positive in 2016, a little bit of a positive in 2018, but the bulk of that would be 2017 shipments.

It's really the strength of the business across the board. Unitary continues to be strong and pipeline looks strong for us. Europe has been a great success story; I think it will continue as well. Of course, the residential business continues to put up some very big numbers. So all that combined has got more to do with the guidance increase than the large booking number in quarter two.

By the way, quarter three should look pretty good for us as well, although I don't have a prognostication on the percentage. But it should be a good quarter for us.

Joe Ritchie *- Goldman Sachs - Analyst*

Helpful, thank you.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell *- Credit Suisse - Analyst*

Just wanted to say thanks a lot to Janet for all the help and all the best.

In terms of the first question, that would really be back on the industrial margins. They used to be at sort of 16%, 17%, the odd quarter here and there, down to 9% to 10% right now. And the guidance embeds that by the end of the year I guess they climb back into the sort of low teens in the next three quarters.

Maybe just help clarify what's driving that sort of 400-point-plus margin recovery. Is it just about productivity or is there something going on with the mix as well of industrial versus compression?

Sue Carter *- Ingersoll-Rand plc - SVP & CFO*

Julian, great question. On the industrial margins, your math is absolutely correct that in the back half of the year we do have the operating margins for industrial improving into the low teens.

As we look at what is going to happen in that back half of the year, it truly is productivity, still lower inflationary type of rates. So you've got productivity offsetting other inflation. You still have positive price in the back half of the year, and you have just a skosh more volume in the back half of the year than the front.

I don't want anyone to think there's a lot of volume recovery that we've built into this. We have not. But there is, by virtue of how the quarters pan out, roughly $50 million of additional revenue in the back half versus the front half. But it's productivity. It is the restructuring actions that are kicking in, and it is the continuation of the actions that the management teams are taking to work through this low revenue and market decline.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Also, Julian, the cost control there is exceptional. So even though you are seeing kind of a headline $0.02 restructuring, there's at least that much, maybe more than that, which would be nonqualified restructuring. So it's sort of restructuring in place; it's not replacing or controlling spending. So there is a cost for that in the first half of the year and a benefit to that in the back half of the year which is broadly in line with Sue's productivity comment. But a big piece of that productivity is literally the cost control around headcount, some of which is qualified, some of which is nonqualified in terms of how we would actually account for it.

The longer-term question that you asked about the profitability of the business, Sue did a little bit of analysis on this, and it might be useful to kind of walk through when we would see a 17% margin business.

Sue Carter *- Ingersoll-Rand plc - SVP & CFO*

Great. So when I looked at it, the first thing that we did is we went back and said at the time that we gave the original 17% margin guidance for the industrial business, the revenues in the business were in the range of $3.6 billion to $3.7 billion. If I look at where we are today, we are roughly in the $3 billion type of territory.

So I think as we look at the business, we are doing all of the right actions today to get the costs in line, but I think what we need is market recoveries and the revenues to return to sort of that upper $3 billion range for us to get into the 17% margin. We think that's doable, but I think the timeframe is really highly dependent on when the markets come back. Right now, we haven't seen the markets actually stop falling. So we need to stabilize first and then the markets to return.

But again, I think the way I'm thinking about it is once the revenues get back up into the $3.6 billion - $3.7 billion area where they were when we gave that guidance, that we will be nearing those 17% type of margins for industrial.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Remember when you look at the gross margins of that business and look at the fixed cost of that business there relative to the climate segment, you can see very easily why that business snaps back very strongly on volume. So when volume returns to that business, we will get very aggressive incremental margins out of that.

In the short term, we are controlling the heck out of costs the best we can. However, we're not going to spite our nose to save our face as it relates to capacity.

Julian Mitchell *- Credit Suisse - Analyst*

Thanks and just my follow-up quickly would be on your overall firm-wide margin bridge. Q1 you had about 10 points or 10 bps from productivity and other inflation. Based on what you just said, should we think the number for the year ends up somewhere between that 10 bps and sort of the 90 bps tailwind that you had last year for the year as a whole?

Sue Carter *- Ingersoll-Rand plc - SVP & CFO*

I do think that you will -- we do see other inflation to be higher in the first half versus the second half. That is when our salary increases take place; that's when a lot of the benefits take place. So when I look at what we plan for the full year, I would say it probably looks more like 40 to 50 basis points for the full year, Julian.

Julian Mitchell *- Credit Suisse - Analyst*

Perfect, thank you.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - ***Morgan Stanley - Analyst***

Thanks, good morning. Really hope Janet isn't [calling the peak] here. I don't think she is, but thanks for all the help.

This North American order strength is really interesting, Mike. I'm assuming that's really driven by these large pipe projects finally starting to break [ground]. I'm just wondering what's changed here.

Is it just the case of old equipment we are seeing here, so the extended replacement cycle is coming through? Is it budgetary? Any color there would be helpful.

Mike Lamach - ***Ingersoll-Rand plc - Chairman & CEO***

Nigel, I think all of that is true, but the constant, persistent investment we have made over five, six, seven years in that business, the constant investment in channel and the service footprint is really paying off. I just think the focus we have had on all of that development being around energy efficiency, sustainability, new refrigerant development, all of that is such a powerful story when you look at it.

This is what we were waiting for. This is what we hoped to have seen, which is outsized growth relative to the market and outsized profitability or margin expansion relative to the market. So this is a huge effort by lots of people, all the way through to the technicians providing service on the street for us. This is a real accomplishment.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay. Obviously very, very early to call 2017 at this point. But if you just look at the North American commercial HVAC operations, based on the backlog of pipeline, is it reasonable to assume that perhaps you might see some acceleration next year?

Mike Lamach - ***Ingersoll-Rand plc - Chairman & CEO***

The thing you have to think about, though, is what happens to the office and retail business. As an example, our national accounts business has been doing extremely well into retail. Office building is doing really well, as you can see. Kind of the high-teens bookings rate again. Unitary, that's been strong again.

At some point you would think that that would begin to subside and be replaced by stronger applied growth, which I think will happen. So I think what you end up with is maybe a change in the mix between unitary and applied, but I do think continued strong performance through 2017.

Nigel Coe - ***Morgan Stanley - Analyst***

Great. Thanks, Mike. That's helpful.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - ***JPMorgan - Analyst***

Good morning. On the climate side, just a very big margin number obviously and I'm trying to just wrap my head around the seasonality dynamics 1Q to 2Q. In the last couple of years you've had increases. Like in 2014 you guys saw a doubling or almost a tripling of the profit number in climate.

Can you just maybe speak to what you expect seasonally there or maybe just at a high level what you expect for the margin in that business as we move through the year? My guess is the seasonality is a bit muted because you are now seeing the onset of commercial, which is a less seasonal business than some of these other things. Just maybe help us square that; the first quarter base is just so high that I'm having trouble getting low enough in climate.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Steve, I think that looking at something certainly in the 16% margin range for the entire segment is going to make a lot of sense for us. Again, to Sue's point, price I think subsides a little bit. Material inflation kind of clips along pretty much at the same rate. Bookings look good. Pipeline looks fairly strong.

We are not seeing -- the container business on the transport side being down, of course, is not all that problematic for us in terms of margins so long as European trailer and North American trailer are doing well. So you put it all together and you probably end up with something in the 16% range.

Steve Tusa *- JPMorgan - Analyst*

Can you at some point soon kind of get to that 17%? Will you hit that at some point this year?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

I don't know. We haven't -- really looking at Q3 and Q4 at that level of granularity around guidance, Steve, I don't know. Q2 is seasonally a pretty good quarter for us. Quarter three can be, so we've got an outside shot at something like that.

Steve Tusa *- JPMorgan - Analyst*

Okay. Then just on the go-forward leverage. You've had this nice pop off the bottom on margins. Should we continue to expect that if this kind of current mix holds, that if commercial HVAC does really continue to roll on here and we have a bit more of an extended cycle than I think most people were expecting probably three to four months ago, can you still leverage that business really well or do you have to add costs or anything like that?

I feel like you got to have plenty of capacity here to let it rip a little bit before you start to throw money at the business from a capacity perspective.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Well, the service business and the controls business are growing so well too, and our margins are obviously much higher, so it's a little bit distorting about how we might think about fixed costs being factory costs. I do think that there is some capacity we have, even in our field service and controls capability, that wouldn't require incremental investment.

Obviously, it's feet on the street, but we stay in front of that and we typically higher long in the service business. So I don't see why having leverage for the quarter -- I'm sorry, for the full year that starts with a 4 would be a problem in the climate business.

Steve Tusa *- JPMorgan - Analyst*

Okay. Then one last quick one. You guys took up the price costs year over year by I think 40 bps you said, but you only took your margins up by 30 bps. Is that just volume and then mix in industrial; is that kind of that moving part?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Well, inflation kicks in just in terms of wage increases beginning in April for the full year and we tend to see the costs increased there as well. It puts a little bit of a squeeze on margins there. But fundamentally, Steve, there's not anything really changing other than the fact that it's hard to believe that price could stay as high as it normally is. Material inflation should stay about where it is, but we're looking at just closing that gap a little bit, probably from the price side.

Steve Tusa *- JPMorgan - Analyst*

Okay, thanks a lot. Appreciate it.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague *- Vertical Research Partners - Analyst*

Thank you, good morning. Mike, can you just elaborate a little bit more on the bookings strength? Was that a -- that 25% number, is that global or are you speaking to the US?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

It would be the North American commercial business.

Jeff Sprague *- Vertical Research Partners - Analyst*

North American commercial. It does sound like Europe, though, is fairly strong for you on share gain. How do you see that playing out over the balance of the year?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Listen, I went -- probably saw five, six of our factories in operations in Europe a month ago. I met with the engineering teams. I saw product launching between August and December, Jeff. It's one of the best stories I've seen.

Absolutely the fastest cycle time between ideation and product launch. They're hitting it right on the money in terms of what the customers are looking for. It's been a great story for us. I don't see that stopping for us in 2016. I'm very optimistic, very proud of the work that has gotten done in the HVAC side in Europe.

I also tell you, switching over to FRIGOBLOCK, FRIGOBLOCK was a family-run German company. If you put sort of a paradigm around that you might think slow to change or difficult to incorporate into the operating system. What I found there was one of the fastest implementations of an operating system that we've put in place across the Company. It's very exciting.

And the openness around that. And then the openness of our transport refrigeration team to include that hybrid electric technology into the truck platform is also very positive. So I left Europe feeling very bullish.

Jeff Sprague *- Vertical Research Partners - Analyst*

Then could you address what's going on in 14 SEER? Probably still early in the season to know for sure, but is that price gap versus legacy 13 holding in the 10% to 15% range?

Sue Carter *- Ingersoll-Rand plc - SVP & CFO*

Yes, Jeff, it is holding. I think the great news about the 14 SEER is -- what we saw was the balance of 14 SEER and greater product is still about 80% of revenues in 2016. So we are seeing price. We're seeing the favorable mix that we expected out of the product and we are also seeing that the balance between 14 SEER and even the 15 SEER and above has not really changed, which does create a good environment, as you alluded to, with the price and cost differential.

Jeff Sprague *- Vertical Research Partners - Analyst*

Is that 40 basis points of positive mix, Sue, that you elaborated all in residential? Did you actually have more than that in residential and its offset somewhere else?

Sue Carter *- Ingersoll-Rand plc - SVP & CFO*

No, it was not all residential. It was a combination of residential and also Thermo King.

On the Thermo King side and one of the things that we saw was more strength than we expected in truck and trailer, both in North America and in Europe. And then the big declines on Thermo King came from the marine container business that I said was down about 60%. So the 40 basis points of mix was primarily from res and from Thermo King, and it was -- my recollection is it was split pretty evenly.

Jeff Sprague *- Vertical Research Partners - Analyst*

Thank you.

Operator

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond *- KeyBanc Capital Markets - Analyst*

Good morning, guys. What's driving the 1Q order growth in residential? And what gives you the confidence to move that forecast up ahead of the selling season?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Well, first and foremost, the product line really at this point has been fully developed and we have hit stride. All the good success with the furnace product, all the good success with the new launches, the variable speed growth in Nexia -- all these things have just been really kind of coming together.

Operationally, we just find the pipeline for projects and productivity and quality to be improving. Deliveries have been exceptional in terms of on-time delivery and having product available where you need it, when you need it. We're really investing in the warehousing and investing in the product availability.

Just a sense here that things have gone right for a long time here and that we will do better, particularly as the mix moves up north of 14, which it is. So as the mix moves north of 14 SEER, we do better anyway. And as the mix moves more toward replacement and away from new construction, we will do better.

Jeff Hammond *- KeyBanc Capital Markets - Analyst*

Okay, great. Then how is the M&A pipeline informing how you are thinking about buyback through the balance of the year?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

There's no doubt we want to grow the Company and grow value over the long run. We have said we are looking at ideas and businesses that we know and run and are successful with.

FRIGOBLOCK and Cameron were great examples. Different examples but great examples of being able to take businesses, put them into an operating system, improve the businesses, and deliver essentially what we said we were going to deliver from an accretion perspective. So we feel good about our capability in doing that.

We also feel patient. We feel like we don't have to -- we are not compelled to do anything around an M&A. We've got great positions in the marketplace and there's not a compelling need for us to go do something and potentially do something where we pay too much in that process.

Jeff, we will continue to evaluate that. When we see opportunities that fit the criteria, we will pull the trigger. We clearly want to grow long-term value to the shareholder and that's probably the best way to do it.

With that being said, you couldn't pass up in January stock price dislocated 20% from the peer group. We jumped in on that and acquired $0.25 billion in January at $51 a share. So we're going to be dynamic, we're going to be opportunistic, and we're going to grow shareholder value. If that means we find the right bolt-ons to do that, we're going to jump on those, too.

Jeff Hammond *- KeyBanc Capital Markets - Analyst*

Okay, thanks.

Operator

Steve Winoker, Bernstein.

Steve Winoker *- Bernstein - Analyst*

Thanks and good morning. Also, appreciate the additional detail in the disclosure today. That's helpful.

Let's see. First of all, Mike, how are you reconciling all of this discussion about commercial HVAC strong growth relative to what is pretty lackluster Dodge data, ABI, all these macro data points? Are you attributing it to [alta] share, renovation, control, service? Just maybe a little clarity on that would be helpful.

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

It's sort of all of the above, Steve, which is probably hard to give clarity on that. But if you take Latin America, we're up mid-teens in Latin America. That's clearly our people out in the street creating demand, making it happen.

Mid-teens bookings growth in Asia. Asia's not that strong. Again, our team is hitting the street.

Europe we talked about product development and the pace of product development there is best in class in the Company. And product management, best we have in the Company around getting it exactly right on these products growth teams and understanding where we are competing, and how we're going to win against very specific competitors in the market. These products launch and they do exactly what they were supposed to do, that's a positive for us.

So there's a lot of self-help here happening and the backdrop on the markets, with the exception of the Middle East, isn't bad. So you got decent markets and really strong execution.

Steve Winoker *- Bernstein - Analyst*

Okay. How are you doing on -- what's the growth rate on VRF in the quarter, progress? Any developments there?

Mike Lamach *- Ingersoll-Rand plc - Chairman & CEO*

Last year we were about 30% growth. This year about the same, Steve. If we continue to do well in the market, we continue to sell VRF; we are beginning to also see interest in what's referred to as four-pipe chillers. This is simultaneous heating and cooling around water circulating through buildings versus refrigerant. It's big in Europe, picking up a little bit of interest in the US.

The idea here is we are going to have whatever products our demand is in the marketplace and then we're going to work with our customers to figure out what the best solution is for the building. And that's why our business was up 30% last year. It's why our business is up about the same this year as well.

Steve Winoker *- Bernstein - Analyst*

Okay, great. Thank you.

Operator

That concludes our Q&A session. I would like to turn the call back over to Ms. Janet Pfeffer for closing remarks.

Janet Pfeffer *- Ingersoll-Rand plc - IR*

Thank you and thank you, everybody. Joe and I will be available for follow-up calls later today and it's been a pleasure to work with all of you. Have a great day, thanks.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may all disconnect. Everyone, have a great day.