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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the Johnson Controls Q2 2026 Earnings Conference Call. My name is Ryan, and I'll be coordinating the call today. [Operator Instructions]

I will now hand the call over to Mike Gates, Senior Director of Investor Relations to begin. Mike, please go ahead.

Michael Gates

Senior Director-Investor Relations, Johnson Controls International Plc

Good morning, and thank you for joining our conference call to discuss Johnson Controls' fiscal second quarter 2026 results. Joining me on the call today are Johnson Controls' Chief Executive Officer, Joakim Weidemanis; and Marc Vandiepenbeeck, our Chief Financial Officer.

Before we begin, let me remind you that during our presentation today, we will make forward-looking statements that reflect our current views about our future performance and financial results. These statements are based on certain assumptions and expectation of future events that are subject to risks and uncertainties.

Please refer to our SEC filings for a list of these important risk factors that could cause actual results to differ from our predictions. We will also reference certain non-GAAP measures throughout today's presentation. Reconciliations of these non-GAAP measures are contained in the schedules attached to our press release and in

the appendix to this presentation, both of which can be found on the Investor Relations section of Johnson Controls' website.

I will now turn the call over to Joakim.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Thanks, Mike, and good morning, everyone. Thank you for joining us on today's call. Before I begin, I want to acknowledge our more than 2,500 colleagues in the Middle East. Against the backdrop of ongoing conflict and an increasingly complex geopolitical environment, they continue to show commitment to our customers and to one another. Our thoughts are with them and their families, and we remain focused on their safety and well-being.

Let's begin with slide 4. We entered the year with strong momentum, and this quarter demonstrates continued progress. Demand for our products, solutions, and services remains strong, led by data centers where we're holding a leading position. In these environments, customers need high-performance cooling, delivering precise operating conditions, while requiring better energy efficiency. Meeting those requirements depends on how well we execute across the business. While early in the journey, our proprietary business system is beginning to strengthen how we lead and execute throughout parts of the organization.

I continue to be encouraged as leaders spend more time focusing on customers, and as teams begin to adopt more common language and approach to problem solving together at Gemba. Against that backdrop, yesterday we announced the release of our second AI Factory Reference Design Guide, focused on air-cooled chiller architectures and providing customers with globally repeatable blueprints for cooling gigawatt scale AI factories. This builds on our water cooled guide released earlier this year. It's the next step in a comprehensive set of global design guides mapping the full data center thermal chain, providing clear design parameters to enable high-performance efficient operation as customers plan and scale AI with greater clarity.

Turning to the results. Orders increased 30% this quarter, building on the nearly 40% growth we delivered last quarter. That consistency reflects sustained customer demand in the markets, where our technology-based innovation, and strong field footprint differentiates us. And with our pipeline remaining strong, it gives us confidence as we move forward.

Revenue grew 6%. Adjusted EBIT margin expanded 310 basis points to 15.5%, and adjusted EPS was up 45%, and exceeded our guide. Backlog grew 26% to a record \$20 billion providing an improved visibility and confidence in the trajectory of the business. This quarter reinforces our ability to convert demand strength into consistent growth, margin expansion, and earnings performance.

Given our strong start in the first half and the visibility we have across the business, we are raising our full year guidance. Marc will walk you through the details later in the call.

Before that, I want to step back and talk about why we're seeing this consistency. Please turn to slide 5. The breakthroughs our customers are pursuing are advancing society. Take, for example, biologics, semiconductor, and advanced battery manufacturing, and data centers, where the need for indoor operating conditions within tight tolerances is driving greater reliance on high-capacity, high-precision, application-specific thermal management systems.

At the same time, these industries are much more energy-intense than their previous generation. Biologics are seven times as energy-intense as traditional pharma manufacturing, and in light of material energy cost

increases, energy-efficient solutions are essential. Let's take, for example, our high-performance YORK chillers. To simplify, this is about customers getting rapid high-capacity cooling precisely when it's needed, enabling mission-critical operating conditions that deliver their targeted outcomes.

As you can see on slide 5, our differentiation operates both at the subsystem level and at the overall system level. Our YORK chillers leverage five core subsystems, enhanced by our Metasys proprietary intelligent controls, and further strengthened by our OpenBlue proprietary digital AI capabilities. Because we own the underlying technology platforms, as well as design, develop, and manufacture these subsystems, we're positioned to innovate faster and deliver application-specific, higher performance with structural cost advantages. That capability has been built over decades, and includes more than 1,000 patents, each focused on higher performance, reliability, and energy efficiency for our customers.

With that context, let me briefly walk through the five subsystems in our high-performance YORK chillers, because this is where the differentiation really comes to life. And this is exactly what many of you will see in action during our upcoming in-person investor visit, starting at JADEC, our Advanced Development Engineering Center in Pennsylvania.

Let me start with the aerodynamic innovation, centered on our compressor design. We hold over 270 patents specifically related to the compressor technology. Simply put, the compressor is the heart of the engine of the chiller. It does the heavy lifting, and it's one of the biggest drivers of performance and efficiency.

We design our compressors specifically for applications that require high-capacity, precision, and reliability, like data centers, advanced manufacturing, and large healthcare facilities. What differentiates us is ownership. While much of the industry relies on third-party compressor platforms, we design and manufacture our own application-specific compressor architectures. That gives us greater control over speed of innovation and the ability to optimize performance for our target applications.

Next is power electronics, our Variable Speed Drives, or VSDs, where we hold over 220 patents. Innovative VSDs allow the chiller to precisely adjust output in real time, rather than running at a fixed speed. That precision helps customers achieve and sustain tight operating tolerances while reducing energy consumption under real-world operating conditions.

The third subsystem is oil-free compression, or magnetic bearings, where we hold over 65 patents. By eliminating physical contact inside the compressor, we reduced friction, wear, and noise, while improving reliability and energy efficiency. Because we design and manufacture our own magnetic bearing compressors, we can fully integrate sensing and controls, enabling higher uptime and predictive maintenance.

Fourth is thermal transfer, where we hold over 260 patents. Our heat exchanger designs are engineered end-to-end as part of the full system, helping minimize material and refrigerant usage. This allows customers to get consistent, dependable performance in demanding environments.

And finally, our embedded intelligent chiller controls. We hold over 300 patents in this area. These controls optimize the overall system performance in real time. Because the controls are designed with proprietary insights of our subsystems, they allow us to clearly understand how each part of the system is performing and turn that into more precise and reliable operation, and better service outcomes over the customer lifecycle.

The result of that subsystem ownership and overall system integration starts with thermal performance, delivering precise, reliable operations in the most demanding environments, and extends to higher energy efficiency and

flexibility across applications. That comes from deep technical expertise across each subsystem and the ability to design them together as one system. This gives us confidence that we can continue to drive further differentiated performance and margin improvement.

Now, let me connect that system-level technology advantage to how we're ensuring it shows up consistently for our customers. Our technology platforms are a clear strength, and we continue to invest. The opportunity head is translating that strength more reliably through both rate and speed of innovation, meaning reductions in speed of market through innovation, manufacturing, delivery and field execution. Our proprietary business system is how we do that.

Please turn to slides 6 and 7. Our business system is how we win with customers, how we empower our frontline colleagues, including our innovation teams, to perform their very best for our customers, and how we run the company. It is anchored in a global cross-functional language and methodology for how we communicate, collaborate, and drive strong continuous improvement momentum to win.

As a reminder, our business system is built on three pillars. Simplify. Apply 80/20 principles to focus on what matters most. Accelerate. Use lean methodologies to remove waste to speed up execution, improving productivity, and reducing assets such as working capital tied up in the process. In short, I think of it as helping us accelerate work from weeks to days. Amplify. Leverage digital and AI approaches to amplify impact across the enterprise. In short, I think of it as taking that same work and reducing it from days to hours and minutes.

Real change in culture sustainment doesn't happen over a single quarter's timeline. It takes time to put the right practices in place, learn what works, and then scale it with discipline.

Slide 7 shows how this journey looks in practice. The starting point is adoption and alignment. Think of it as connecting head, heart, and hands. What you know, what you believe, and how you show up differently. That begins with leaders, and we're seeing real momentum here. Today, approximately 1,400 colleagues are actively engaged in this work, and about 1,000 leaders have been trained on the business system.

More importantly, we're beginning to see early shifts in how work gets done, and prioritize the narrow areas as leaders and teams apply these behaviors and use the business system approaches more consistently.

While doing that, we start narrow and go deep in a few areas of opportunity. As we've highlighted in the previous quarters, we have early and strong examples of cross-functional teams concentrating on specific priority areas, getting to root causes, and implementing countermeasures leading to significant performance improvement.

To date, we've completed more than 150 kaizens across roughly 20 priority areas around the world. Only after that work is proven do we scale, and this must be done by deliberately replicating what works and standardizing it across the organization. Earlier, I commented on the opportunity we have to extend our technology-based strengths through the entire customer lifecycle by better enabling our people to deliver for our customers.

A strong example is our service sales work stream, which helps ensure we establish a service engagement shortly after our new chillers are commissioned. Unnecessary internal processes weigh down our seller's ability to proactively engage with customers for service needs, assessments, and proposals.

Starting in West Florida, a cross-functional team used business system approaches like problem solving, value stream mapping, kaizen, and daily management to redesign the process end-to-end taking the process for an individual customer for weeks and days to a matter of hours.

The focus on the customer and the front-line enablement led to tripling service agreements immediately following new chiller startup commissioning. After proving success in one market, we scaled the same playbook to two additional local markets with strong follow on progress. This is also what many of you will see at our upcoming investor event in real operating environments at Gemba, where the value is created.

At JADEC, we will illustrate how the business system accelerates innovation, both rate and speed, from development to new product launch. At our Airside Center of Excellence, or ACE, and in our Baltimore local market office, we will show the same system driving scalable manufacturing, commercial execution, and service delivery using common tools, language, and leadership behaviors to deliver more consistently, and predictable outcomes.

With that Marc will walk you through the details.

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Thanks, Joakim, and good morning, everyone. We delivered another quarter of solid execution, building on the momentum from a strong first quarter with healthy demand across our core markets.

Performance this quarter reflects continued progress across the enterprise, as operational discipline and commercial focus are translating more consistently into results. This reinforces our focus on disciplined execution, margin performance, and operating rigor.

Let's turn to the results on slide 8. Organic revenue grew 6%, led by continued strength in Applied HVAC and mid-single digit growth across both service and systems. Segment margin increased 180 basis points to 18.5%, and EBIT margins expanded 310 basis points to 15.5%, driven by better operating leverage and productivity improvements. Adjusted EPS of \$1.19 increased 45% year-over-year and exceeded our guidance. These results highlight the operating momentum building across the business as we enter the second half of the year.

Let's now discuss our segment result in more detail on slide 9 and 10. Orders increased 30% this quarter, building on a strong first quarter and reflecting sustained demand led by large data center activity, while demand across our other key end markets remained stable. Customers continue to value Johnson Controls for our ability to deliver integrated mission-critical solutions at scale, backed by reliability, deep domain expertise, and lifecycle services.

By region, orders in Americas grew 40%, led by nearly 60% growth in systems, supported by large scale data center projects. In EMEA, orders increased 11%, led by strong growth in data center-related projects. In APAC, orders grew 4%, led by Southeast Asia, while system delivered mid-single digit growth at the segment level.

Turning to revenue performance by region. In the Americas, organic revenue increased 7%, led by continued strength in Applied HVAC and solid double-digit growth in service. In EMEA, sales increased 1% as system growth offset disruption caused by the Middle East conflicts and lower service volumes. APAC grew 13%, led by over 20% growth in Applied HVAC. Across the portfolio, revenue performance showed continued momentum, underpinned by strong execution from our teams.

Moving to margins by region. In the Americas, adjusted segment EBITDA margin improved 100 basis points to 19.5%, driven by higher volume and price realization. In EMEA, margins expanded by 370 basis points to 14.9%,

reflecting productivity gains and improved leverage on higher revenue. In APAC, margin expanded 350 basis points to 19.8%, with improved volumes and productivity gains.

Our record backlog grew over 25% to \$20 billion, providing confidence in our growth rate over the next 12 months.

Turning to our balance sheet and cash flow on slide 11. On the balance sheet, we ended the quarter with approximately \$700 million of available cash, and total liquidity remained strong. Net debt declined to two times remaining within our long-term target range. Overall, the balance sheet continues to support disciplined capital allocation and financial flexibility, giving us the ability to invest in the business, maintain balance sheet strength and return capital to shareholders.

Let's now discuss our fiscal third quarter and full year guidance on slide 12. As we look to the third quarter, our guidance incorporates the momentum we've established year-to-date. We anticipate organic sales growth of approximately 6%, operating leverage of approximately 45%, and adjusted EPS of approximately \$1.28.

For the full year, improved performance and backlog strength support our expectation of organic sales growth of approximately 6%. We continue to expect operating leverage of approximately 50% for the full year, reflecting continued progress in cost management and productivity.

As a result, we are raising our adjusted EPS guidance to approximately \$4.85, representing roughly 30% growth and \$0.30 higher than our original guide at the beginning of the year. We continue to expect adjusted free cash flow conversion of approximately 100% for the full year, demonstrating that improved profitability is translating directly into cash. This is supported by disciplined working capital management, while early progress in our business system is beginning to reinforce more consistent execution in targeted parts of the organization.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] We'll wait one moment to allow the queue to form. The first question comes from Scott Davis from Melius Research. Your line is unmuted.

Scott Reed Davis

Analyst, Melius Research LLC

Hey, good morning guys.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Hey, Scott.

A

Scott Reed Davis

Analyst, Melius Research LLC

Yeah. Can you hear me?

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Hey. Good morning.

A

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

We can.

A

Scott Reed Davis

Analyst, Melius Research LLC

Great. Everything looked pretty consistent with what we would expect, except the services order is still a little sluggish. Is there some timing issues there or any dynamic? And I guess what I'm asking is, when do you expect that to pick back up again, because it clearly should, given the install orders you have.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Good morning, Scott. Yes. Correct. Those were a little softer than some of the other numbers that we published. So just as a reminder, service is about a third of our revenue. And in our case, we do not include retrofit in the service revenue, as some other companies do.

A

Now, our service fundamentals remain solid, and particularly in HVAC, where we continue to perform very well. But it was offset in the quarter by weaker performance, particularly in security. And we have, over the last couple of quarters, been digging into our security business, the service business, deeper, and have found that over the years, the balance between volume and price probably hasn't been appropriately managed.

And it's also, by the way, the part of our service business that's a little less differentiated, HVAC Applied being the most differentiated. So we're rebalancing in the security service business between price and volume. So as a

result of that, we were down in security service in the quarter. Margin-wise, we were up. So we're just managing and finding a better balance between price and volume in that part of the business.

Scott Reed Davis*Analyst, Melius Research LLC*

Q

Okay. That's helpful. And then just to back up a little bit on the business system stuff, because it obviously matters a lot. Walk us through, when you talk about it, and I'm on slide 7, the seven lighthouse sites projected in two years. I think, you're starting with a couple of lighthouse sites now, how does that kind of – does that go exponential after that? Do you go from two to seven to 40? I mean, how does that kind of work – I'm just trying to get a sense of how long it might take you to get just across the organization and really, the business system deployed to a level of excellence.

Joakim Weidemanis*Chief Executive Officer & Director, Johnson Controls International Plc*

A

Yeah. So lighthouse sites are internal sites where new leaders, for example, can go and spend a week or a few days to experience what really good looks like. So think of these as Olympic gold medal sites.

So we're unlikely to add a lot more than seven. I think that's probably a good number. And the seven just simply comes from that, we need a couple on commercial and service, a couple on manufacturing, and a couple on innovation.

And the lighthouse sites is one part of how you roll out a business system more widely. It doesn't mean that those are the only places where we roll out the business system. Not at all. Those are the Olympic gold medal sites that others will aspire to as we roll out more broadly.

And at the Investor Day, you will see that one that's upcoming in the Baltimore and the Pennsylvania area. You're going to see, as we're standing up lighthouse sites, a couple of them.

Scott Reed Davis*Analyst, Melius Research LLC*

Q

Okay. Great clarification. Appreciate it. Best of luck, guys. We'll see you in Baltimore.

Joakim Weidemanis*Chief Executive Officer & Director, Johnson Controls International Plc*

A

Thank you, Scott.

Operator: Our next question will come from Amit Mehrotra from UBS.

Amit Mehrotra*Analyst, UBS Securities LLC*

Q

Thanks. Good morning. I wanted to ask about orders. Obviously, 30% growth is very strong, but it did plateau from the prior quarter, at least on an absolute basis. So I guess, one, are we at peak orders in your opinion? And any additional color on sort of your thoughts on how long and wide the runway is from here on orders and new business opportunities just after this huge, almost unprecedented increase we've seen, both with you and across the board?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Good morning. Yeah. Orders plateauing, I think when you're talking about 30% to 40% rates, I think both of these quarters, we're very, very happy about. Our pipelines remain strong, growing at a double-digit rate. And so, we expect continued strong orders. It's not just – of course, the data center market is fueling part of that, but we're also very pleased with the stability in so many of our other verticals. And I mentioned some of them in the prepared remarks here. For example, within pharma biologics, as well as advanced manufacturing. And as you know, we don't guide on orders specifically, but as I said, the pipeline remains very strong, and we're very confident and happy about our record backlog here.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Okay. Thank you, Joakim. And just maybe a quick follow-up, I wanted to ask about the strategic direction of the business. There were some reports on asset sales. I'm sure you can't specifically talk about that, but maybe just talk about how you're thinking about the moving pieces, sort of both strategically and financially. I assume maybe some of these sales may be dilutive in the near term and how you're thinking about sort of the near-term and long-term strategic dynamics?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yep. Very good. I think unchanged, you know, our job here is to make sure we maximize shareholder value. And over the last year, we've had a chance to go through with fresh eyes, the whole portfolio. And, of course, as in every company I've worked, no one ever has the perfect portfolio at any one point in time. But then the way I think about it is the different parts of the portfolio, it's kind of like a sports team, different parts play different roles.

For example, we're playing more offense with Applied. And other parts of the business, I would think as being more of defense players contributing very, very nicely to profitability and cash flow, for example. But we continue to review our portfolio and with the goal of strengthening shareholder value. And we'll keep you posted as we make progress on that.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Okay. Thank you very much. Congrats. See you in June. Appreciate it.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yeah. Thank you. See you.

Operator: Our next question will come from Joe O'Dea with Wells Fargo.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. How are you?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Hi. Good morning, Joe.

A

Joseph O' Dea

Analyst, Wells Fargo Securities LLC

Some really helpful color, both in a product portfolio and technology as well as business system. Can you just talk about the timeline on kind of business system implementation when you talk about 1,400 colleagues being engaged today? Any mile markers you have out there for how you expect that to move forward? It certainly seems to be translating on the margin expansion that we're seeing here, but we'd expect as that continues to move forward, you continue to unlock other opportunities.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Yeah. So the way, I've grown up, I've been applying business system throughout most of my career is – you never really measure your progress in terms of numbers of kaizens or people engaged internally. The only reason we're offering that on these calls is just to give you a sense of the momentum.

A

Internally we're really focused on the outcomes that this effort is generating. And we'll talk a little bit more about that at the upcoming investor event, but we're doubling down on a number of improvement opportunities or growth blockers, unlocking growth blockers.

And in terms of results showing up on the P&Ls, I mean, we're still very, very early stages, right? I mean, as I explained, you always start narrow and go really deep and then before you cascade, and so on. So we're still in the very early innings here, and it's really over the next year and two years that we're going to start to see more meaningful results show up on the P&L.

Joseph O' Dea

Analyst, Wells Fargo Securities LLC

And then on the Alloy Enterprises acquisition, could you talk about what that brings to you from a differentiation advantage? What it means for your CDU offerings...

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Yeah.

A

Joseph O' Dea

Analyst, Wells Fargo Securities LLC

...and when those advantages will be in the market?

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

So Alloy, which is a fantastic company with so many capable PhDs from reputable academic institutions in the Boston area, really brings to us unique, highly proprietary thermal management capabilities, which is both anchored in material sciences as well as manufacturing capabilities.

A

And we might share a little bit more about them at our investor event, but think of it as adding capabilities in the heat transfer area, which is our thermal transfer area, which is one of the elements that I discussed around our chillers, but of course, there are heat transfer elements to CDUs as well. There are heat transfer elements to cold plates within liquid cooling systems.

And so we're going to be looking to apply Alloy's technology in all those areas, chillers, CDUs and eventually cold plates. And I don't think we will disclose here exactly when we're going to apply it in the CDUs, but it will be shortly.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Got it. Thank you.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

We're very excited about that acquisition.

A

Operator: Our next question will come from Chris Snyder with Morgan Stanley.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you. I wanted to ask about June quarter margins. It seems like there's not much sequential margin embedded in the guide, but typically the company sees pretty nice sequential expansion alongside the higher volumes into the June quarter. So I guess, are there any headwinds coming through or mixed tailwinds in Q2 that is not driving that sequential step up to the third quarter? Thank you.

Q

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Yeah, Chris. So if you look at the volume and growth we anticipate in the third quarter, it's very similar to what we saw in the second quarter. So that's all integrating till the 6% growth for Q3, which means from a volume leverage standpoint quarter-over-quarter, you're not going to see as much of a step up as you might have seen in prior period. However, I'd point to the fact that the way we've guided it, it's a pretty impressive operating leverage year-on-year of 45%.

A

If the volume would come out a little bit higher based on certain risk and opportunities we have in the quarter, could we see a little bit of a better sequential improvement in margin? Yes. But at this stage, I think embedded in our guide with that 45% operating leverage year-on-year improvement, I think, we're pretty much locked and loaded.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you, Marc. Appreciate that. Maybe if I could follow up on a longer term question. You referenced, working with the hyperscalers on the future data center architecture.

Q

I guess when you look out into the future, how do you see underlying content shifting between the CDU, which I think would be on the positive side versus air handlers and chillers on the other side perhaps? And then even

within chillers, are you seeing any shifts between air cooled, where you guys have a very strong market position versus the water chilled side? Thank you.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yep. Great question. I think the big picture, and by the way, I've spent the last few weeks in the field. Of course, I spend a lot of time in the field all the time, but I think I've visited seven data centers in the last three weeks on site, both up and running, and data centers under construction on two continents. So fresh input from the field.

So, there are more things that generate heat in a data center than the actual chips. And I'm sure you've read about some of the things that are happening outside of thermal management on the electrical side, for example. And so, what that does is that even though liquid cooling is being implemented, I think there was maybe a concern about a year ago that there would be less need for air handling units, and I think we're seeing the opposite at this point in time.

So, our Silent-Aire franchise is enjoying very healthy growth, and we expect that to continue, because of other things than the chip generating heat. So our content, I think, is going to actually continue to increase a little bit as a result of that.

And then I know there was some speculation about chiller content, and I think we discussed that in prior quarters. I think those fears were overstated. Maybe on the margin, over the next couple of years, there might be a slight headwind, but the upside versus what we originally thought on air handling units will nicely offset that.

And then, of course, our CDU business has just started to ramp, and we have hundreds of millions of dollars in the pipeline and expect about \$100 million worth of business this year. And why not more? And it's just simply because naturally, many of our customers, they want to pilot and test and so on before they place the big order.

But we're very bullish about our opportunities and in all those different franchises for data centers. So both chillers, air cooled, water cooled, as well as our air handling units, our Silent-Aire franchise and now with the addition of the Alloy's technological capabilities, I think, we'll only strengthen our position.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I really appreciate that.

Operator: Our next question will come from Julian Mitchell with Barclays.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Thanks very much for the question. Maybe starting with the Americas kind of operating leverage there, you've touched on margins a little bit. You started the year a bit muted on that second quarter, a nice pickup in Americas' operating leverage.

How are you thinking about the operating leverage for that segment in the back half, and wondered really if there's been any change to your assumption around sort of gross cost headwinds because of Section 232 changes or broader inflation within that Americas' business, please.

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

Yeah. So, if you look at the margin improvement year-on-year this quarter of Americas, about 100 basis points, a lot of that came from pure growth and leverage. That means we had a little bit of a productivity headwind in the quarter, and that came from mostly the ramp up in our capacity.

If you recall, a couple of years ago, we made substantial investment to increase hard capacity within our factories in North America to keep up with the demand. We are likely going to continue making investment in capacity.

But as that capacity continues to accelerate and ramp, you have the natural production ramping inefficiency that comes with that. As you train and onboard a whole lot more people, as the processes get practice over time, you have a little bit of a short-term dynamic happening in productivity. That ramp and productivity opportunity will remain probably for the balance of the year as you're thinking about the operating leverage of the Americas, but there's enough kind of juice in the backlog for us to continue to see year-on-year margins to improve. And that's entirely embedded in our guide as an enterprise of an operating leverage of around 50%.

On the 232, as you know, and inconsistently with how we've dealt with tariff for the past year or two, we've been able to navigate those both through long-term and short-term countermeasure. But given our current product mix and the way it's been classified under the different regulations, we've not seen a material impact specifically to 232, thanks to the fact that chiller are a category that are – that is not including in that Section 232.

There's some other parts of the business that have been affected by that, but it's rather minimal, and we feel very comfortable that similar to what we've done in the prior 12, 18 months, we'll be able to pass on some of that risk to pricing dynamics in the market.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Thanks very much for that, Marc. And then my second question around shorter term top line dynamics in the Middle East, I realize it's a very dynamic environment to put it politely.

I think you saw a little bit of an impact in the second quarter, maybe just flesh that out on what it meant, and what it means for your EMEA business, and anything that you've assumed for improvement or deterioration or what have you there in the second half, please?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yep. So we actually have an important business in the Middle East. We have about 2,500 colleagues on the ground and our priority short-term is very much about their safety and well-being. But, of course, what we do is mission critical for our customers, and actually for some communities there as well. So we're trying to strike the balance between taking care of our customers and our people here.

The Middle East overall for context is about 2% to 3% of our overall revenue, but for EMEA, it's almost 10% or a little bit more than 10%. And in the quarter, about a third of that business was really impacted, delayed, if you will, by the conflict here.

So, we're not anticipating a full return here in the quarter that we're actually in right now, but over time, we hope that, and you're as good of a predictor of that as we are, but we hope that over time, things will go back to normal here in the last quarter of the year.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thanks very much.

Q

Operator: Our next question will come from Andrew Obin of Bank of America.

Andrew Obin

Analyst, BofA Securities, Inc.

Yes. Good morning.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Hi. Good morning, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Can we talk about, I know lots of time is spent on HVAC, but clearly we're also hearing is putting a lot more focus on buyer and control business. Can we just talk about the initiatives that are taking place in terms of markets, pricing, and also, can you remind us the impact of data center business on growth profile of those verticals? Thank you.

Q

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Yeah. So obviously HVAC has been one of the great growth benefit of what you've seen in the market, particularly on data center, but other vertical as well as we've mentioned them in the opening remarks.

A

A data center, just like any other infrastructure requires specific fire detection and fire suppression application, as well as controls, both building controls and then of course, equipment controls associated to that.

We have made a substantial investment over the last few quarter in creating specific applications for these vertical, and we continue to see a lot of momentum building within these businesses, both fire detection, fire suppression, but also, of course, our Metasys building control solution, and we see that as a great opportunity moving forward. They've not yet gained the same level of opportunistic growth that the HVAC business has, but we believe the opportunity on a relative basis is probably as high.

Andrew Obin

Analyst, BofA Securities, Inc.

And maybe can you just share with us outside of data centers, sort of growth initiatives at fire and control, because as I said, the feedback is that they're doing quite a bit better?

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Well, we have the same opportunities there, Andrew, as we have in Applied. If you recall, in prior calls, I talked about the early progress with the business system and a commercial application. I talked about selling hours in a week for our salespeople or our solution architects where we, for HVAC, went from less than 10 hours a week selling to now above 20 hours in the areas where we've implemented that work. That exact same approach we're now applying in controls, for example, in a number of places.

And we're finding that we have the same opportunity, if not a bigger opportunity, in terms of giving back more hours to our people, our solution architects in the Street. And the same, we haven't gotten started yet as much on fire detection because we've prioritized Applied and Controls. But fire detection, which has some similarities with the selling motion and controls, meaning that it's a system. I think we have very, very similar opportunities as in Controls and HVAC and Applied, that's on the selling side.

And on the service side, and I think you will see this a little bit in the Investor Day that's coming up, similar opportunities, again, where, in terms of giving hours back to our field colleagues, there's significant opportunity on capacity.

And it's not just capacity. It's, of course, if you have more capacity, you're able to respond faster. And you're also in a position where you can have more choice around, which – on the service side of things, for example, choice around which field colleagues to send, not all field colleagues are, as an example, as competent on all parts of our offerings, right? So by having more capacity, you can both respond faster and you have greater choices around who to send. So, some very, very good opportunities in those businesses.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

And so the margin opportunity associated with this – with these initiatives is commensurate with what we have on the HVAC side, right?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yes, exactly. Yeah. Because what – as we've discussed in prior calls, what – the consequence of what I just described is that we can continue to grow without adding people. And at some point in time, of course, we'll also add people, but we're really trying to decouple the top line growth from the cost growth or head count growth, and that's going to drive margin expansion.

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

And overall, the margin profile of our controls franchise is very accretive to fleet average, has been and will continue to be for transfer controls.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Thank you very much.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Thank you. Thank you, Andrew.

Operator: Our next question will come from Patrick Baumann with JPMorgan.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Hi. Good morning.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Hey, how are you?

A

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Good morning. I had one on the EMEA margin trajectory. It looks like second quarter was a really good result there. And I'm just wondering if you could give any context on where you think margins in that area can get to in the second half, and then longer term, what the vision is?

Q

And then along those lines, you mentioned that earlier in the call, like the 80/20 focus, and it sounds like maybe that's playing out in security service, as an example, maybe that's in Europe. Just curious, how much of a revenue headwind do you expect from this type of activity across the portfolio?

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Yeah. So first on margin, if you look at EMEA for the year, it's improving nicely, give or take 100 basis points. And we are really happy with the big ramp we had this particular quarter. Because of the headwind we're seeing associated with the different macro challenges EMEA is seeing, the balance of the year, depending on how volume will shake out, you will see, I wouldn't say pressure on margin, but you will see a slowdown in the progression of that margin over time, maybe with a little bit of pressure in the third quarter, and then some recovery in the fourth quarter.

A

Net, net for the year, I think EMEA will come out very strongly and really helping for us to achieve that operating leverage.

Longer term, I think we remain consistent. EMEA has been an area – we've a bit underinvested historically on both capabilities and products. We've been working diligently over the past 12, 18 months in fixing and addressing some of those gaps and making the right level of investments to have the same level of quality differentiation and competitive products for EMEA.

And as that comes, we feel very strong that EMEA has the opportunity to continue to raise and catch up to its regional peers within the segments at JCI. It's still a business, as you can tell, that operates at 300 basis points to 400 basis points lower margin than its regional peers. It will probably remain slightly lower, but not to that level in the long run.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

And on the 80/20 stuff, is that – like what's the revenue headwind you expect from these type of actions across the portfolio? Have you provided context on that before?

Q

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

Yeah. When 80/20 is applied well, you should not see a massive long term revenue impact because you actually free up room for the team to focus on the product where you have the most differentiation, the greater ability to drive value.

Now, obviously, in the short term, in certain pocket of the market, you will see some softness as we reposition the portfolio against higher runner. But I wouldn't anticipate any activity from the business system to impact whatsoever our ability to grow and compete.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Got it. Thank you. And then on the backlog, can you quantify the shape in terms of the percentage you expect to deliver over the next 12 months?

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

Yeah. As the demand continues to ramp for our solution and as customer put orders ahead of really their ability to take delivery, we think easily 70% of our backlog can be turned into revenue over the next 12 months.

The balance remains a little bit challenged right now. The main driver for that is power, electrical infrastructure for some of our data center customers that continues to kind of put a damper on their ability to commit on deliveries within the next 12, 18 months, and some of that are pushed a little further than we'd like.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Understood. Thanks so much for the color.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

We're also seeing – yeah. And maybe just to add to that, we're also seeing customers place orders earlier for those reasons that Marc mentioned then a little bit earlier than perhaps a year ago. So there has been a slight timing shift in our backlog here for that reason, meaning beyond?

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Yep, we're hearing that from others as well. Makes sense. Thanks.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yeah, yeah. Okay. Thank you.

Operator: Our next question will come from Andy Kaplowitz with Citigroup.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey, good morning everyone.

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Good morning.

A

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Hey, Andy.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

So I just wanted to follow up on that last comment. Obviously, you're growing nicely here, but you've had orders accelerate over the last couple of quarters. Your capacity to be able to sort of ramp up in 2027, obviously, the timing of these big data center orders is key, but do you have the capacity you need, considering that you will be delivering more of those bigger projects next year and beyond?

Q

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Yes. The short answer is, yes, over the next 12 plus months. And because we built hard capacity that Marc was referring to, the actual factories, the buildings, some time ago before I joined the company. And what's going on right now is we're ramping within those new buildings, if you will. And so we will have capacity for the next 12, let's call it 18 months. And there's also plenty of productivity improvement opportunities, as I've talked about on previous calls.

A

Now, as we've all seen, the order entry has been very healthy here over the last couple of quarters. And our pipeline, as I referred to, remains very strong. And so, of course, we're continuously looking at where we would need to add more hard capacity, meaning more footprint. And so that's an ongoing effort. And I think as long as we stay 12 to 18 months ahead of that, which we can right now, based on what I said, we're going to be in good shape here.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Thanks for that. And then maybe just a bit more color on sales by geography. I know that you've had a bit of disruption in the Middle East, as you talked about, but orders in EMEA have been accelerating lately on data center strength.

Q

Does that start to reflect into stronger sales growth in that segment, as well as you go into 2027? And then I think you said sales up 13% in Asia Pac, backlogs up double-digits. Is China turning around or has it turned a corner for you?

Marc Vandiepenbeeck

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

So starting with EMEA, I mean, we had a really strong 11% order growth on a compare of almost 13% last year. So it's a double stack that's pretty strong – that's a sign that some of our solutions are really starting to resonate, particularly in the data center vertical. But there's other aspects of the business that we see a very positive there in the market in EMEA. And that's despite the disturbance we saw associated with the conflict in the Middle East.

As far as APAC goes, that order rate of about 4% was on an easy compare, right? And transparently, we barely had any growth in order last year. It was, I think, flat. And so I would say, yeah, we've bottomed out. We're past that point. I think we passed that point probably a quarter or two ago.

Now it's not a big return to growth, particularly in China. However, the same vertical where we see great opportunities, I'm thinking, data centers, semi-car manufacturing, as well as the biologics that we talked about in prior quarter, that continues to be a big tailwind, particularly for China.

Our ability to convert there is not the same as maybe the rest of the world, but those opportunities are so large that we see an opportunity to continue to build some momentum in APAC and drive some growth.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Appreciate the color.

Q

Operator: Our next question will come from Nicole DeBlase with Deutsche Bank.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Yeah. Thanks. Good morning guys.

Q

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

Morning, Nicole.

A

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Morning.

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Just wanted to follow on to Pat's question about backlog cadence. I guess it seems to suggest then that if we're kind of exiting the year with 6% organic in the second half that you guys would expect to see a pretty big step up in organic growth in the first half of 2027, based on that backlog lead time that you provided. Just wanted to confirm that, that's not a crazy assumption to be making?

Q

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

It's a little bit early for us to start forecasting next year, but it's not a crazy assumption. Yeah, we're going to have a very strong backlog entering the year.

A

I think the reason I'm pausing a little bit is some of the headwind, Joakim talked about around our service business and some of the more mundane part of the portfolio where differentiation is a little bit harder to achieve. It depends how quickly we can turn that around to help support the level of growth you just mentioned.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Understood. That makes sense. Thanks, Marc. And then I guess just, I don't think the question has been asked yet on Asia Pac margins, also up really nicely year-on-year despite the tough organic environment in that region that you just spoke to. So, Marc, can you just talk about the expectation for Asia Pac margins as we progress into the back half of the year?

Marc Vandiepenbeek

Chief Financial Officer & Executive Vice President, Johnson Controls International Plc

A

Yeah. So they still had a pretty good revenue quarter. Their book and bill within the quarter was very strong. So 13% top line growth really allowed them to both drive net growth leverage as well as very strong productivity. We talk about around \$20 million of productivity for that segment on \$150 million or so of segment margin, that's a very material uplift.

As you look at the balance of the year, we think Q3 is going to be probably closer to flat year-on-year associated with the fact that the level of growth that you saw this quarter, we'll probably not repeat in the third or fourth quarter, and it's going to be closer to a mid-single digit type of growth for that period. But we still see some full-year margin improvement for that segment, probably reaching the high 18% type of margin portfolio for that particular segment.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. I'll pass it on.

Operator: This concludes our question-and-answer session. I will now hand the call back to Joakim Weidemanis for any closing remarks.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Thank you. And thank you for all your questions. This quarter's results reflect the momentum that's building across Johnson Controls, as our teams operate with greater clarity, discipline, and consistency. We're seeing those improvements show up in how we serve our customers and in the strength of our results. And there's more to come.

I want to thank our 90,000 colleagues for their commitment and passion in delivering a strong quarter and their energy in embracing our new way of working with our business system. This is how we're going to win. While we're early in our journey, we're excited by the momentum we see.

Finally, today is National Skilled Trades Day, so I want to extend a special thank you to our more than 40,000 field colleagues for all they do every day for our customers. You are such an important part of our competitive advantage. I look forward to continuing my conversation with all of our stakeholders. Thank you for joining us today.

Operator: This now concludes today's call. Thank you all for joining. You may now disconnect your lines.

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