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Johnson Controls International Plc (JCI)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the Johnson Controls Q4 2026 Earnings Conference Call. My name is Ryan, and I will be coordinating the call today. [Operator Instructions]

I will now hand the call over to Eric Swanson, VP-Investor Relations, to begin. Eric, please go ahead.

Eric R. Swanson

Vice President-Investor Relations, Johnson Controls International Plc

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

As a reminder, today's discussion will include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. Please refer to our SEC filings for additional information.

We will also reference non-GAAP measures. Reconciliations are included in our earnings release and presentation appendix available on our Investor Relations website.

I will now turn the call over to Joakim.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Thanks, Eric, and good morning, everyone. This Eric's first earnings call since joining our Investor Relations team last month, and we're excited to have him on board.

I want to start by recognizing Johnson Controls colleagues around the world. Over the last 18 months, we've made significant progress toward becoming a more focused thermal technology company, growing at a faster rate with more investment capacity and higher profitability.

At the end of the day, it's our people who bring the strategy to life, combining our technology and deep field and manufacturing expertise to deliver for customers. Their commitment to customers and disciplined execution is reflected in the consistency of our performance.

Fiscal 2026 was an important proof point for the framework we introduced at our Going to Gemba Day in June. Our differentiated technological capabilities, unmatched field presence, global manufacturing strength, and proprietary business system are helping us move with speed, win with customers, and strengthen performance.

For the full year, we exceeded both our initial fiscal 2026 guidance and the raised outlook we provided during the year. Organic revenue increased more than 8%, adjusted EPS increased 37%, and adjusted free cash flow conversion was 103%.

We enter fiscal 2027 with momentum and confidence in our ability to continue creating value for customers and shareholders. That confidence is grounded in a business model built around three reinforcing elements. Our

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strategic pillars focus resources on the most attractive opportunities, including AI and data centers, mission-critical environments, and decarbonization. Our proprietary business system empowers front line teams, accelerates problem solving, and drives continuous improvement everywhere in our company. And our economic engine converts those advantages into differentiated customer value; innovation, manufacturing scale, and front line productivity.

The result is a powerful value creation engine that helps our colleagues win and deliver for our customers and grow profitably and compound value over time. These capabilities are increasingly relevant as our priority customers are investing in some of the world's most demanding operating environments to deliver the outcomes they aspire to. This is especially evident across AI and data centers, advanced manufacturing, and biopharma.

As customers scale capacity in these verticals, the environment supporting their operations are more heat and energy-intensive, need to be controlled within tighter tolerances, and are less tolerant of disruption. Our portfolio brings together integrated thermal management and controls with liquid cooling technologies, including cooling distribution units and cold plates for data centers. We combine subsystem technology developed in-house with the ability to design, deliver, and service the broader architecture across the thermal chain, including controls.

As data center architectures continue to evolve, we see additional opportunity in modular data centers. We believe our differentiated capabilities position us well in this emerging segment, and we're investing to win and building a stronger partner ecosystem. Our collaboration with Armada is one example. As announced at the NVIDIA GTC in Berlin, together we plan to build 500 megawatts of distributed edge compute capacity in 2027, bringing together our thermal management technology, engineering capabilities, and global manufacturing scale to bring capacity online faster.

Our advantage comes from bringing together five areas of expertise: a focused portfolio oriented toward high-growth, mission-critical verticals; proprietary technologies built over the last 150 years; an unmatched global field presence of approximately 50,000 sales solution architects and highly skilled technicians; and emerging manufacturing advantage focused on quality, capacity, and delivery; and our proprietary business system. These five areas of expertise allow us to solve complex customer challenges with greater speed, create differentiated value, and support sustained profitable growth. We are a global thermal technology leader that is built for this time.

With that context, Marc will take you through the financial results in more detail.

Marc Vandiepenbeeck

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

Thanks, Joakim, and good morning, everyone. We finished the year with strong first quarter results. Organic revenue increased 12%, led by strong double-digit growth in Americas and APAC. Systems grew 13%, reflecting continued strength in data centers, while service continues to deliver with a solid 8% growth.

The top line growth, combined with continued productivity, contributed to margin expansion across all three regions. Americas' adjusted segment EBITDA margin expanded 210 basis points to 22%, EMEA expanded 80 basis points to 16.4%, and APAC expanded 110 basis points to 19%.

Strong operating performance, combined with lower corporate expense, drove significant adjusted EBIT margin expansion of 300 basis points to 18%, aligning our operating leverage well within range, despite much higher growth. Adjusted EPS increased 32% to $1.66.

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The demand environment also accelerated as we exited the year. Order increased 44%, driven by continued data center demand, along with strong growth across other mission-critical verticals, including battery and semiconductor manufacturing and large research universities. Backlog grew 43% to a record $23 billion, reflecting sustained demand for our differentiated technology and capabilities.

Our operating performance translated to strong cash flow generation, supported by the disciplined execution and working capital focus embedded in our business system. For the full year, adjusted free cash flow was $3.2 billion, representing 103% conversion. We ended the year with $600 million of cash, while net debt declined to 1.8 times, below our long-term target range. And we returned $2.5 billion to shareholder through share repurchases and dividends.

This performance provides capacity to invest for growth, maintain our investment-grade credit profile, and return capital to shareholders. With customer demand extending well beyond fiscal year 2027 and requirements continuing to scale, customers need a partner with the capabilities and willingness to invest alongside them.

Joakim will now discuss how we're investing to meet that demand.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

As Marc said, we see customer demand translating into record backlog, a strong pipeline, and increasing visibility into longer term demand with our largest customers. We're acting decisively on that opportunity, investing ahead to expand capacity and capture a larger portion of the growth in our highest growth markets, while simplifying Johnson Controls to reduce complexity, move faster, and increase earnings power.

Both are integral to our value creation plan and reflect a consistent and disciplined approach to capital allocation, investing where we see the greatest opportunities for growth, while building a simpler, more productive company. We expect approximately $900 million of capital expenditures in fiscal 2027. This investment puts us in a strong position to capture a larger portion of the growth. It is anchored in the demand we see across our backlog and pipeline, as well as the longer term requirements we are planning for with our largest customers, particularly in our highest growth markets. This capital will strengthen our ability to win new business and capture the significant opportunity ahead. It will also expand capacity, improve lead times, delivery, and quality, enable us to serve customers as their requirements scale.

Our business system is enabling us to add that capacity more efficiently. Without the productivity and capital efficiency we're driving across the company, we estimate the capital requirement would have been more than 2 times higher. We are applying that same discipline to our restructuring actions, reallocating resources and capacity toward the areas where we see the strongest opportunities for growth. While our growth investment is focused on thermal technology, our restructuring actions are concentrated primarily in other parts of our portfolio outside our most technology-differentiated, mission-critical verticals. There, we are optimizing our manufacturing and warehouse footprint, streamlining the functions that support those operations, and moving accountability closer to customers.

We anticipate approximately $400 million of restructuring expense over fiscal 2027 and fiscal 2028, and expect approximately $600 million of gross annualized savings by fiscal 2029. These actions will position us to support the growth we see today and the opportunities ahead. Additional capacity positions us to capture increasing demand. Simplification improves speed and accountability, and productivity creates room to reinvest, expand margins, and increase earnings power.

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Marc will now review our fiscal 2027 guidance.

Marc Vandiepenbeeck

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

The investments and actions Joakim just outlined position Johnson Controls to accelerate growth while maintaining our margin expansion trajectory. Our fiscal year 2027 outlook reflects the strength of the demand environment, the visibility provided by our backlog, and continued improvement in execution.

For the first quarter, we expect organic revenue growth of 12% to 14%, operating leverage of 30% to 35%, and adjusted EPS of $1.15 to $1.20. For the full year, we expect organic revenue growth of 11% to 12%, ahead of the high single-digit growth in our long-term algorithm. We expect operating leverage of greater than 30%, and adjusted EPS of $6.15 to $6.30. At the midpoint, that represent 21% EPS growth from fiscal 2026.

As we meaningfully increase capital expenditure to support growth, we expect adjusted free cash flow conversion of approximately 95%. Our ability to maintain such a strong cash flow conversion while increasing investment, investing in restructuring, and increasing manufacturing capacity demonstrate the strength and quality of our earnings and disciplined capital allocation.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator instructions] Our first question will come from Amit Mehrotra with UBS. Your line is now unmuted.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everybody.

Marc Vandiepenbeeck

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

A

Hi, Amit.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Good morning.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Appreciate the question. Maybe we can start with backlog and growth. Obviously, both extremely strong. Maybe you can just talk about your ability to sort of keep growing the backlog as the revenue growth picks up. Do you still expect to sort of convert 70%, 80% of that over the next 12 months? And I noticed F&S growth sort of perked up in the Americas, which is encouraging to see. Maybe you can just talk about sort of the expectations there as well. Thank you.

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

So, we had – good morning, Amit. We had very healthy order entry in the quarter, coming off of a prior quarter where the order entry also was very strong. So, our backlog continues to grow, while our ability to execute and deliver through our manufacturing operations but also our field teams continues to improve.

Our pipelines, Amit, continue to grow. They're very healthy in multiple verticals. Of course, data centers was very strong. But we also have a number of other mission-critical verticals that continue to grow here from both pipeline and orders point of view. So, we're very confident with the guide that we've given here.

Amit Mehrotra
Analyst, UBS Securities LLC
Q

And I guess, Marc, just as a follow-up on the incremental margin of 30%-plus, and that's obviously consistent with the long-term framework. I understand that, obviously, there's a need for capacity. But in Investor Day, we talked a lot about this opportunity to create synthetic capacity. And so, maybe you can just balance those two. And is there maybe an opportunity to sort of exceed the long-term framework in 2027, just given how early we are in the journey of productivity initiatives?

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

Yeah. So, we're already exceeding the long-term algo on the top line, right? We guided that 30-plus percent incremental on a high single-digit long-term algo, which we're seeing a much faster growth now going into fiscal year 2027, and yet are maintaining that operating leverage well above 30%.

The underlying question is, how much headwinds do we see as we build that capacity into the factory? There's an opportunity to accelerate growth and potentially create higher operating leverage in the back end of the year as the ramp-up stabilize a little bit and we get to a better run rate from the infrastructure we've built. And, of course, the business system continues to drive enormous opportunities for us to create that soft or synthetic capacity within the factory, allowing us to really create more output with much, much less capital.

As Joakim laid it out in his opening remarks, we think we would have probably have needed about twice as much capital as we were going to need over the next year or so to be able to invest in the growth we're seeing and that continues to increase from our customers.

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

And the $900 million, Amit, investment and capacity here is obviously in manufacturing, but it's also in innovation, as well as investing in digital and AI approaches to continue to – which is part of our proprietary business system, to continue to drive more productivity and better execution capabilities in our field operations.

Amit Mehrotra
Analyst, UBS Securities LLC
Q

Got it. Makes sense. Thank you very much. Appreciate it.

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

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Thanks, Amit.

Operator: Our next question will come from Nigel Coe with Wolfe Research. Your line is now unmuted.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Oh, thanks. Good morning, everyone. Not a bad FY 2026. Congratulations on wrapping that up. Just – I want to go back to the orders, and, obviously, standard strength in the Americas, good traction elsewhere. But just curious if there's any change in the kind of the contours of the orders. Is this still largely a chiller story? Or are we starting to see a bigger mix of, I don't know, modular or CDU? Just wondering if there's any change in the mix of orders.

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

A

Yeah. So, what we've been working on, in particular in the data center area, is to increase our TAM. And as you've heard over the last couple of quarters, we've increased our offering, added CDUs, acquired a cold plate company that we're now making good progress with several major customers.

And in modular data centers, that is not a new product line for us, but with a little bit increased focus here and a little bit more innovation work. You've been able to read about some of the progress that we've been making here more recently.

So, chillers is the largest part of our portfolio still, but a good part of our growth is starting to come from these efforts that we – I outlined here to increase our TAM. So, we're very encouraged about what we're seeing here.

Nigel Coe
Analyst, Wolfe Research LLC

Q

No question. And then just coming back to the – it looks like it's a new restructuring program, Marc, the $400 million of expense to yield $600 million of savings by FY 2029. Number one, just want to make sure this is the new program on top of the existing program. And maybe just bring us up to speed in terms of where we are right now on the current program and the sort of savings you expect to realize on the current program.

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

A

Yeah. So, if you look at the existing program that really came from the divestiture of our Residential and Light Commercial, a lot of that program had to do with fixing how we organize and the base cost and the support infrastructure that drive solutions and functional support for customers, and we are very pleased with how that came about.

So, we had announced about $400 million of expense for $500 million of savings, and we've spent about 85% of that $400 million. And you can see, as it translate into the earnings here this year, the run rate savings is probably $100 million to $150 million above that original $500 million target. So, the outcome and the speed at which we generate the savings ended up, A, being much faster on the old program, but also being much higher.

As we looked at more opportunity to simplify the portfolio, we clearly saw the opportunity to simplify the part of the portfolio that is less geared toward the mission-critical and data center and simplify a little bit our logistics and manufacturing footprint, which hasn't been touched as part of the original program. And so, that new program we

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expect will have maybe a little bit longer lead time than the original program, less low-hanging fruits. But I think it will bear probably as good of a level of return as the first program did. And we're very excited about the opportunity to further simplify our infrastructure.

Operator: Our next question will come from Steve Tusa with Wells Fargo. Your line is now unmuted.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Hi. Good morning.

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

Good morning Steve.

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

Hey, Steve from Wells Fargo.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Just on the earnings bridge for 2027, I think you broke – you break out mix and things like that. You mentioned the savings this year. Can you maybe give us a little bit of color on mix, price/cost? And then any kind of savings you have flowing through, just to help decompose a little bit the margin?

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

Yeah. The – so, I'll get past the divestiture item that we put on that bridge. But, clearly, the year was really supported by the accelerated growth that we saw mostly in System, and that's our chiller output revenue that came about. Because of the efforts we did from a business system standpoint, we saw a lot of productivity.

The mix uplift we saw really had to do with the different mixes of businesses that generated that incremental revenue. So, less the traditional Fire & Security business, and more of the higher end margin chiller where we differentiate more. And we have the ability to really deploy our technological advantage, and that created a gross margin lift.

Now, transparently, Service was a slight drag into that internal mix. But if you net all of that out, it's really focusing and orienting our growth opportunity against end market where we can differentiate and provide solution for the customer that they're willing to pay for.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Okay. And you're price/cost positive?

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

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We are price/cost positive for the year. There was a lot of inflation on both material and a little bit of – a little bit on raw. You can see that while we maintain price/cost positivity, the incremental price we got on top of inflation does not fully translate into the same margin rate. Said differently, we don't get exactly the 37% gross margin rate we have on our recovery on inflation, but we're absolutely price/cost positive. It's just slightly margin-dilutive for the year.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Okay. Thanks a lot. Appreciate it.

Operator: Our next question will come from Scott Davis with Melius Research. Your line is now unmuted.

Scott Reed Davis
Analyst, Melius Research LLC
Q

Hey. Hey, good morning, guys...

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

Hey, Scott.

Scott Reed Davis
Analyst, Melius Research LLC
Q

...and congrats on a great year. Hey, and just quick to clarify on Steve's question, are you – do you need more price in 2027 to be price/cost positive?

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

No. We are price/cost positive in 2026, and we will be price/cost positive in 2027. We don't need more relative price. My point, Scott, was if you get 100 points of price and you have a cost increase of 80, you're price/cost positive by 20, but that 20 is less than your normal 37%, in our case, gross margin rate.

And so, yes, ideally, I'd always love more price, but we want to remain competitive in the way we play in the market. And so, we'll continue to act as good guardian of shareholders' money and price way higher than what we see in inflation. But our ability to maintain from an [ph] inflation rate (00:24:51) standpoint, the entirety of the gross margin rate of the enterprise at time will become challenged.

Scott Reed Davis
Analyst, Melius Research LLC
Q

Okay. That's helpful. And then are you guys done with 80/20 in Fire/Security? And I don't mean that – well, growth reaccelerated, so are we kind of – have we anniversaried the tougher kind of comps there on 80/20? Or was growth itself just that much stronger?

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

Well, when it comes to the business system that we have built and are deploying, that's a multiyear journey. So, to some respects – and it's the good news that you're never done, because there's always more opportunity.

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I think what we're seeing is – to go back to the performance of some of those businesses, is that as a result of leveraging our business system, but also as a result of some org changes we made couple quarters ago, where we have decentralized decision-making and empowered front line general managers with a broader scope of responsibility, think being able to influence the customer end-to-end. I think we're starting to see the early benefits of that. So, I'm very encouraged and expect to see more here going forward.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Makes sense. Congrats again, guys. I'll pass it on. Thank you.

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

A

Thanks, Scott.

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

A

Thanks, Scott.

Operator: Our next question will come from Joe Ritchie with Goldman Sachs. Your line is now unmuted.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, guys, and I echo everybody's congratulations on a great year. The first question I have is really just around the backlog conversion. So, your guidance implies, call it, roughly around $3 billion in incremental revenue in FY 2027 versus FY 2026. Obviously, backlog is up $8 billion.

What I'm trying to understand is just – is it just the nature of the projects that you're booking and when those projects are expected to deliver? And is there potential upside, to Amit's question from earlier around like synthetic capacity, to be able to deliver more of your backlog in FY 2027 than what's implied in your guidance?

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

A

Yeah. No. Fair question, Joe. The $23 billion backlog we've now accumulated over the past year, that really provides us very clear visibility into the growth for 2027 and is fully embedded in how we've outlooked the 11% to 12% organic revenue growth for the years. We still anticipate 70% to 80% of that backlog to convert into revenue over the next 12 months. That's not something that has changed. And the remainder of that balance then extend beyond fiscal year 2027.

The primary constraint, really, is not demand. The demand continues to accumulate, and the mix of project is not materially changing. But in some case, we see customer that continues to face power and some electrical infrastructure limitation. That influences their commitment on when they want to take delivery and the project timing and simply the schedule of how that will all unfold. But we're very confident that we're going to continue to build a backlog and continue to build capacity to accelerate growth.

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

That's great, Marc. And then I guess just my follow-on question, maybe just on that capacity, you guys talked about this ability to create synthetic capacity. I'm just curious, just given the demand environment remains so strong, is there a point where this capital-efficient approach that you guys have maybe requires additional hard CapEx? Or do you feel like you've got good line of sight for the next couple years?

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

A

I think we have pretty good line of sight for the next couple years. And I will back that up with, what many of you who participated in our Go to Gemba Day in June, where we showed an example of how we had taken a part of a factory and quadrupled the capacity without adding head count, capital, and actually had reduced the number of space needed. So, there are still many opportunities like that available to us. So, our capacity expansion going forward is going to continue to be less capital-intensive than in the past.

Operator: Our next question will come from Andrew Obin with Bank of America. Your line is now open.

Andrew Obin
Analyst, BofA Securities, Inc.

Q

Yes. Good morning.

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

A

Morning. Morning, Andrew.

Andrew Obin
Analyst, BofA Securities, Inc.

Q

Good morning. How are you? Can you just talk about what's happening in just HVAC supply chain? Specifically, I'm thinking Silent-Aire. A lot of headlines, a lot of concerns. You seem to have been able to deal with it well. Where are we? What does it look like into the next quarter? And what are your assumptions into next year? And how are you managing it?

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

A

Well, so, first of all, thanks for that question. So, first of all, as you heard also from – at the Go to Gemba Day – and those materials, for those of you who weren't there, are on our website.

So, our vertical integration here is really a significant advantage in a high-demand environment that we're living in right now. And you'll recall, we talked about – for chillers, for example, the – that real – the chiller is really five key subsystems. And we own not just a proprietary technological know-how, but also controlled the COGS. So, we manufacture the five subsystems and are quite vertically integrated.

And we, of course – but we're not vertically integrated on everything. So, we continue to look at what would make sense economically to do it more in-house to reduce the dependency on potential shortages from a variety of vendors.

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And included in that is also looking at potential acquisitions of – I think of them more as surgical acquisitions, bolt-on acquisitions to help protect our supply chain here. But so far, our teams are executing very well. So, even though there are the odd issues, which there always are in manufacturing, we're able to execute pretty well here, as you see from the results.

Andrew Obin
Analyst, BofA Securities, Inc.
Q

Thank you. And then just maybe a more technical question. Given your relationship with Armada, how does the modular product flow through your P&L? How should we think about it? Because you sort of – you cited about capacity additions. Do we just assume all of this revenue flows through P&L and margin? Or how should we think about modeling it? Thank you.

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

Yeah. So, the way that flows through is our Silent-Aire. So, relationship with Armada is, we are really the infrastructure provider of those containerized modular edge compute sovereign AI pods. As you know, we're very proud of having been now qualified for the new NVIDIA program. And we announced that that plan to, to ramp up 500 megawatt with them.

Armada has the entirety of the software layer and distributed application that goes through that compute, and we take care and revenue in our P&L over the next 12, 18 months, everything that has to do with the equipment and those containerized modular data center. And so we're very excited about that opportunity, the growth it represent. We think that market will continue to evolve, and we'll continue to evolve to the positive. As you know, some of the political environment and the uncertainty around logistic and location and the need to accelerate the speed to compute will continue to be a critical item for our customers.

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

And our TAM, our dollars per megawatt, if you will, is higher in this kind of business than most other parts of the data center business that we're in. I'm talking about per megawatt now. And so, you should think about those modular data centers as having pretty much everything we develop and own included in it.

Operator: Our next question will come from Nicole DeBlase with Deutsche Bank. Your line is now unmuted.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Yeah. Thanks. Good morning, guys.

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

Morning.

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

Hey, Nicole.

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Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Can we just talk a little bit about what you're seeing with respect to the Middle East and what you've baked in for the Middle East within the EMEA outlook for 2027?

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

A

So, the Middle East was challenged in 2026. But over the last couple of quarters, it would seem like some customers have figured out how to live with the uncertainty of the environment. And therefore, we are projecting a slight improvement in what we expect from that region. But, of course, there's still a lot of uncertainty around what's going to happen there. So, we're not back to where we were before the uncertainties.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Understood. And then with respect to the global intrusion announcement yesterday, is it possible to size that business in terms of the total divestitures that you guys have been considering that you've disclosed? And any update on the progress for – or the timeline for additional divestitures?

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

A

Yeah. So, first, that intrusion business, if you remember, it's residential, very light commercial type of business. As you know, those are two end market that we've really decided were non-core for what JCI does and really not aligned with our mission-critical approach.

We anticipate to close that transaction towards the end of the second quarter of 2027. That transaction will be slightly dilutive. Think about $0.15 on an annualized basis once it closes. So, for the balance of fiscal year 2027, it won't be highly material as we look into it. But depending on the timing, we'll keep you posted. The annual revenue of that business is right around $0.5 billion.

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

A

And then, Nicole, we continue to work on our overall portfolio. And the overarching goal here is, of course, to create shareholder value. And so, there is more work going on, and we'll keep you posted. But meanwhile, of course, we're – as per the other question that was asked, we're making sure that we continue to execute better across the portfolio.

Operator: Our next question will come from Noah Kaye with Oppenheimer. Your line is now unmuted.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Thank you. So, your comment earlier about kind of the productivity of the CapEx you're adding and how would it have been twice as high, were it not for the business system, I wonder if we could put some additional parameters around that. Is there a way to think about the revenue capacity that this investment is bringing? Because I think it would be a good measure of kind of your capital efficiency here and, obviously, help us understand some of the longer term growth possibilities.

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

A

The goal is to keep up with the demand as we see it coming from the mission-critical vertical like data center. Meaning, the goal is to keep up for a longer period of time with double-digit growth demand in terms of revenue opportunity.

Doesn't mean we'll be a double-digit growth company forever, but it means that the objective of the buildup of our infrastructure in 2027 and in 2028 is to maintain that double-digit trajectory and capture as much as we can of the opportunity as we see it and maintain that leadership position in those critical domain that JCI has been operating in.

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

A

And keep in mind again that the $900 million, of course, manufacturing is an important part of that. But as I've mentioned before, there's an important part of innovation and investments in there as well to accelerate the rate – the speed and rate of innovation to further our competitive advantage, capitalize on 150 years of know-how, technological know-how that we built up. And then there's also a chunk of investment related to – basically think of it as productivity in the field that will enable our – with AI and digital approaches and tools, enable our field to serve and win more customers.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Thank you, both. A question on some of the regional orders dynamics. I think it's striking that Americas was so robust this quarter. But when we look at the pipelines and where we're seeing inflection in pipeline growth, one could argue that EMEA and APAC are perhaps seeing more accel at this point. I'm curious to know if you see that in your pipelines as well, and how you think about the implications for orders growth from here moving into the next several quarters.

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

A

So, our pipelines continue to grow at a nice rate in all three regions. Now, having said that, the – some of the secular drivers around data centers, semicon, those two verticals that are really related to the world's desire and need for more compute, the drivers are much stronger in the United States and Asia-Pacific – and by the way, in Asia-Pacific, they have strengthened in a very nice way here over the last couple of quarters. Europe has just simply a little bit earlier and its journey when it comes to all things compute, but we expect that to hopefully change here over the next year.

Beyond those verticals, there are healthy pipeline growth in, for example, biopharma, but also defense for the obvious reasons. You can read in the paper every day what's going on in the world, right? So – and so, the mix of what's happening in the pipelines is a little bit different by region here. But generally, pipelines are growing very nicely in every region.

Operator: Our next question will come from Jeffrey Sprague with Vertical Research. Please unmute your line and ask your question.

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Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, everyone.

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

A

Hey, Jeff.

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

A

Hey, Jeff.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Hey. Couldn't stay away, guys. Hope you're doing well. Just coming back to backlog and conversion, I know there's been a couple questions on this. But the fundamental principle of the backlog you share with us, I believe, is backlog that you can deliver within the next 12 months. Obviously, what you can deliver and what the customer can accept are maybe two different things, which gets us to maybe that 70% to 80%. But want to confirm that's fundamentally correct, the backlog is technically deliverable within 12 months.

And then, so maybe you could – if that's so, then – the numbers do suggest fairly significant revenue upside relative to your guide, and it obviously is an initial guide. We get that. But maybe just kind of talk about maybe those customer bottlenecks. Are they getting more significant? What role you can maybe play in helping untangle some of this stuff? And just any other perspective on that sort of broader question.

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

A

Yeah. So, as I mentioned earlier, the primary constraint is really not demand. And, yes, the definition, as you laid it out, is exactly what it is. We unconstrain supply, unconstrain demand. We could deliver the entirety of that backlog in the next 12 months. Doesn't mean that our customer will be able to – and in some cases, the customer continue to face the same problem as they have historically. I wouldn't say not at a faster pace. So, dynamically the market isn't changing. The location may be in some of those data center is moving a little bit around, but we don't see really a slowdown or more difficulty from a customer standpoint to accept the orders.

But your point stands. If some of those constrain simplify or loosen up a little bit over the next 12 months, our ability to unfold more of the backlog quicker is absolutely an opportunity. And as you said, 11% to 12% is where we see the year coming in. Should the market evolve a little bit differently, we could be – potentially do better.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And then maybe since we're near the tail end of the call and we've covered a lot of ground, I'll just throw a modeling nit at you, Marc. Just kind of the movement in corp and amort looks a little odd, dropping down the way it did in Q4 and then back up in Q1. Can you just provide a little color on what's going on there?

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

A

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Yeah. The amort coming down was just part of the normal amortization schedule. And when you see it coming back up, it's associated with the transaction we did on alloy that increased in the quarter. The amortization expense, as you know, new acquisition, especially technology capability acquisition, will come sometimes with a little bit more amort than you normally do.

But those are for the good reason, and we're really excited about the opportunity that alloy brings from a heat exchanger differentiation, as well as our entry into the cold plate market and differentiated CD opportunities.

Operator: Our next question will come from Varun Govindaraj with Bernstein. Your line is now unmuted.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Morning, everyone. Thanks for the question. Every few months, there's always this scare that, hey, chillers are going away. At GTC in Berlin, NVIDIA put out another video showing that. Clearly, it's not reflecting in your strong order numbers. But are you hearing anything at all from customers, indicating a shift away from chillers? And just as you plan for this over the longer run, how are you thinking of managing that risk away?

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

A

Thank you for the question. I think lots have been written on that topic by many on this call. I think there will be some situations over time where, on the margin, perhaps one or two fewer chillers will be needed. But by and large, customers are designing data centers with redundancy and designing them for operating at certain peak conditions, which, even though you think you may be able to reduce the number of chillers, in practice, in reality, that's not how they're being designed, at least not yet with less chillers, that is.

Now, regardless of that, as I mentioned before, our strategy in the data center market is to continue to increase our TAM per megawatt, and we're doing that through a number of ways. But if I talk about two approaches, one is – and we've talked about this before, one is simply approaching – our strategy is to win in the overall thermal architecture of the entire data center to be able to reduce the amount of energy used for even higher capacity and more rapid response cooling. And we're doing that by adding – have been adding capabilities in CDUs, in cold plates, and in controls. And there's more to come, and we'll be announcing more here in the next couple of quarters. And that – so that's one way to increase the TAM and help our customers basically design and operate much more efficient data centers.

And then the second thing, which we talked about earlier on this call, is really the modular segment that we have been in for a number of years, but – that we've decided to double down on because we think the opportunity is very, very compelling here in the near and medium term. And there, again, as I alluded to, our TAM per megawatt is even higher than in the larger gigawatt data centers.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Got it. Thanks, Joakim. And then as a quick chiller-related follow-up, are you seeing anything happen on the mix between air-cooled and water-cooled units, just with this whole narrative around water conservation? Whatever you can share qualitatively.

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

A

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The mix has not changed materially recently. And as you know, almost all of the data centers that are being built today have closed loop water cooling systems and consume less than – much, much less than your local golf course. And so, I think this water consumption point is something many of our customers are addressing now with the general public through their ramping PR agencies here. It's quite frankly old news and not the way data centers have been designed for a long time.

Operator: Our next question will come from Brett Linzey with Mizuho. Your line is now unmuted.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, all. Hey, wanted to follow-up on the pipeline, the CDU, and then the incremental business on cold plates. I guess as we look at that billion-dollar pipeline, how much of that is already converted into orders – firm orders here? And then, thinking about as that new capacity comes online, how much is effectively spoken for versus really dependent on future order conversion?

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

A

Only a small portion of that billion-plus dollar pipeline has converting to-date. So, there's a lot of upside opportunity. And we continue to see that pipeline growing. We are ramping up capacity for CDU in all three regions. That capacity is mostly spoken for as we look at it. But part of the investment we're making, the $900 million of CapEx, has to do with ramping up that capacity at speed to reduce our lead-time and have the opportunity to accelerate the order rate for a very differentiated CDU product offering.

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

A

And then, in general, on capacity, let me share a little bit the types of discussions I'm having with some of our larger customers, which basically is along the following lines. We have, over the last year, staffed up with an incredibly strong manufacturing and operations team, which is why – and they're helping us deploy the business system to create capacity through lean manufacturing. But they're also very strong and experienced at standing up new capacity as we continue to do and we've talked about on this call.

We're able to – and for many of our product lines – stand up new plant, physical plant capacity within 12 months. And with the lean manufacturing, the business system, we're able to create meaningful capacity within quarters, in addition to what we get for the – with the hard capacity that we create.

Many of our customers take more than a year to build the data center, right? So, they are ordering, in some cases, up to a year ahead of when they need the actual equipment. So, we're trying to create a situation here, and I think we're there, where we can – we have flexibility on creating capacity faster than the demand requires it. And so, we're trying to create a bit of a business model change, which we believe is going to be part of our – many aspects of our differentiation.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Yeah. Appreciate that. And then just a quick follow-up on Service, and specifically the attachment rate. So, very strong growth in Systems. Service, obviously strong. But the rate of growth, not the same level. What really explains that, I guess? Is it duration? Or is there resource allocation? Maybe just talk about the uptake in your attachment rate trends.

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Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Well, so we're in many different service businesses, right? You've got HVAC, you have Fire, you have Security. And within those businesses, there are different service games, right? So, it's – you can't really generalize. We've spoken about in prior quarters where the growth has been more subdued in particular in our Security part of the portfolio, Service, and the Security portfolio where we have done work to look at what kind of contracts we want to be involved in, the growth run rate and the profitability of those.

And as we're repositioning a little bit in the Service side of the – Security/Service side of the business, we're still seeing a little bit of subdued growth there, but it's starting to pick up. But as we've said in prior quarters, we still probably have another one or two quarters ahead before we're on the other side of that. So, the Security/Service business is the one that is – has the biggest opportunity here.

Operator: Our next question will come from Toby Okwara from Morgan Stanley. Your line is now unmuted.

Toby Okwara

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you. Congrats on the great quarter. Just wanted to follow-up on some of the Service questions, and specifically in data center. I guess, as the business mix is more towards data center, does that change the Service opportunity long-term at all? Or how do you kind of think about that?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yes, it will. And, obviously, the Systems growth is very, very healthy, and the attachment rates in the data center world are higher than fleet average. So, over time, that will benefit us. And we believe that our field footprint is one of the industry's largest. And as we're deploying our business system, and as many of you who visited us on the Going to Gemba Day could see, we're not just improving our ability to productize and sell services, but we're also improving our ability to execute on those services more productively. So, we believe there's both a – over time, a top line acceleration opportunity, but also a very nice margin opportunity here.

Toby Okwara

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. And then, following up on some of the international questions, I guess, outside of Middle East, how did the growth look in Europe there? And what would you need to see in the market to see acceleration in the catch-up to the growth that we've seen in Americas and APAC?

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

A

Yeah. So, first of all, I think it's important to understand that our business mix is quite different in Europe than in the other two regions. So, we're much heavier on Fire & Security in Europe, and – but building our presence on thermal management, meaning HVAC and control. So – and that's where the investments are going in Europe.

As you heard, the market in Europe for data centers and semicon is in earlier stages than it is in the United States and Asia-Pac. But I think that over the next few years, we're going to see a significant pickup in that, and we're positioning ourselves to be ready for that.

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Operator: This concludes our Q&A session. I will now hand the call back to Joakim Weidemanis for any closing comments.

Joakim Weidemanis

Chief Executive Officer & Director, Johnson Controls International Plc

Thank you, all, for joining us today. So, we exit fiscal 2026 with great momentum, record backlog, and clear visibility into the year ahead. Our differentiated technological capabilities, our unmatched field presence, and proprietary business system positions us to support customers as their requirements continue to scale and to create increasing value for our shareholders.

I want to thank our more than 90,000 colleagues around the world for their commitment to our customers and for continuing to raise the standard of execution across Johnson Controls.

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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