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Johnson Controls International Plc (JCI)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

Jim C. Lucas

Vice President-Investor Relations, Johnson Controls

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Olivier Leonetti

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

OTHER PARTICIPANTS

Nigel Coe

Analyst, Wolfe Research LLC

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Julian Mitchell

Analyst, Barclays Capital, Inc.

Scott Reed Davis

Analyst, Melius Research LLC

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Gautam Khanna

Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Johnson Controls First Quarter 2023 Earnings Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] This conference is being recorded. If you have any objection, please disconnect at this time.

I will turn the call over to Jim Lucas, Vice President-Investor Relations.

Jim C. Lucas

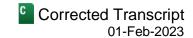
Vice President-Investor Relations, Johnson Controls

Good morning, and thank you for joining our conference call to discuss Johnson Controls first quarter fiscal 2023 results. The press release and all related tables issued earlier this morning, as well as the conference call slide presentation can be found on the Investor Relations portion of our website at johnsoncontrols.com.

Joining me on the call today are Johnson Controls' Chairman and Chief Executive Officer, George Oliver; and Chief Financial Officer, Olivier Leonetti.

Before we begin, let me remind you that, during our presentation today, we will make forward-looking statements. Listeners are cautioned that these statements are subject to certain risks and uncertainties many of which are difficult to predict, and generally beyond the control of Johnson Controls. These risks and uncertainties can cause

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actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors and cautionary statements in our most recent Form 10-Q, Form 10-K and today's release.

We will also reference certain non GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are contained in the schedule attached to our press release and in the appendix to this presentation, both of which can be found on the Investor Relations section on Johnson Controls website.

I will now turn the call over to George.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Thanks, Jim, and good morning, everyone. Thank you for joining us on the call today. Let's begin with slide 3. Fiscal 2023 is off to a strong start with solid Q1 results. Our teams across the globe have executed well, delivering strong financial performance for our shareholders, while pushing the pace of innovation to provide our customers with the next phase of digital solutions across our vectors of growth.

During the quarter, we accelerated growth across our service-based businesses, drove higher margins and delivered profitability at the high end of our adjusted EPS guidance range. Overall, organic revenue grew at a healthy pace. And our \$11.3 billion backlog remained resilient, growing 11% year-over-year. Our service strength was resilient, remains a key competitive differentiator.

While order timing, supply chain realization and China policies have impacted our Global Products and field install order flow during the quarter. We are seeing incremental improvements in order momentum heading into Q2.

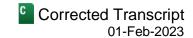
As we mentioned over the last few quarters, we remain focused on the fundamentals of our business and improving our operational execution. Our teams have done a great job advancing our initiatives to accelerate growth and optimize the efficiency of our cost structure.

During the quarter, we delivered \$90 million in productivity cost savings and are on track to reach our \$340 million savings target over the course of this fiscal year. We are also committed to our prudent approach to capital allocation, reinvesting in new products and technology to drive long-term shareholder value, while continuing to return capital to our shareholders. We recently announced our plans to enhance our growing industrial heat pump portfolio, with the acquisition of Hybrid Energy. Acquisitions are an integral part of our growth strategy. And by investing in Hybrid's patented high temperature heat pump technology, we are continuing to strengthen our leading global product portfolio and provide our customers with the most efficient sustainable Building Solutions.

We are well positioned to capitalize on large growth opportunities across our dynamic product portfolio in Field business. Through our integrated domain expertise, global coverage and scale, we are leading the way towards smart, healthy and sustainable buildings for our customers. While the global macroeconomic environment remains uncertain based on our strong start to Q1 and our expectations for the remainder of the year, we are raising the lower bookend of our adjusted EPS guidance range for the year.

Now turning to slide 4. During the quarter, our OpenBlue platform continued to expand, as we enhanced our capabilities leveraging the power of AI in providing customers with unique insights. A good example is the deployment of OpenBlue Enterprise Manager at a leading tech manufacturer to help them meet their energy and sustainability goals.

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In addition, we have recently installed OpenBlue Companion at their facility to enhance employee productivity and space utilization. Advancing predictive analytics to integrations at the edge, our full suite of solutions empowers our customers to meet their carbon emission goals and create a healthier, more productive workspace for their people. To-date, we have enhanced the existing connectivity of over 11,000 chillers through OpenBlue, representing a 79% increase year-over-year.

Moving on to slide 5. Our digital service journey has accelerated since we launched our innovative OpenBlue platform in fiscal 2021. At that time, we entered the first phase of our digital transformation with a focus on enhancing data mining capabilities. Over fiscal 2022, we launched the OpenBlue Gateway, enabling data access at scale and increased connectivity across our growing installed base. We are now positioned for the next phase of our journey as we standardize our field operations globally.

Making the benefits of real-time monitoring of connected devices to our extensive service network, we can provide our customers with faster response times while optimizing the deployment of our global field service presence. We are beginning to see the results of our digital offerings enabling service growth. During the first quarter, service orders and revenue grew 10% year-over-year. With continued growth, we are in a great position to reach the goal we set out at our Investor Day in fiscal 2021 to capture \$2 billion in additional service revenue by 2024.

On to slide 6, with nearly 40% of the world's carbon emissions coming from commercial and industrial buildings, the goal of achieving Net Zero starts at the building level through our BAS sustainable infrastructure partnership ecosystem, we play an integral role in helping our customers achieve these targets, no matter where they are in their decarbonization journey. Starting with our established advisory services and goal setting partnerships with KPMG and Accenture, we help customers take the first step to accelerate and solve their decarbonization efficiency goals.

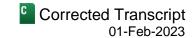
We were also able to help fast track our customers' Net Zero targets through carbon reduction services collaborating with leading renewable energy supply and distributed energy providers. With our comprehensive customer solutions and strategic partnerships, we are positioned to take full advantage of favorable regulatory tailwinds and continued momentum. During Q1, we realized over \$200 million in organic revenue growing over 20% year-over-year, with orders over the last 12 months growing at 6%.

Turning to slide 7. The healthy buildings opportunity remains attractive as our customers invest in indoor environmental quality improvements post-COVID. Solving for the indoor air quality and energy consumption challenges of hybrid work models is driving a compelling intersection of our healthy buildings and sustainability strategic growth factors. We were in a leadership position, thanks to OpenBlue Indoor Air Quality as a Service, which continued to gain momentum in Q1, as well as our leading IAQ and space management capabilities in OpenBlue Enterprise Manager.

In our healthy buildings business, trailing 12 month orders increased 11% year-over-year and our pipeline of \$1.2 billion remained strong. Looking forward, we expect continued growth momentum as the value of indoor environmental quality improvements delivers benefits for our customers.

On to slide 8, we are honored to be continually recognized for our dedicated sustainability efforts. Among other honorable recognitions, two of Johnson Controls leaders were awarded for their efforts. Chief Sustainability Officer, Katie McGinty was named one of 2022s Most Influential Women Executives for Sustainability Leadership by WomenInc. Magazine. Anu Rathninde, President of Asia Pacific received the ESG Exploration Character

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Award of the Year from the 2022 ESG Pioneer 60 Awards by Jiemian. I am proud of our team for leading by example and executing on our values.

I will now turn the call over to Olivier to go through the financial details of the quarter. Olivier?

Olivier Leonetti

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

Thanks, George and good morning everyone. Let me start with the summary on slide 9. Total sales grew 4% with organic sales increasing 9%, comprised of 10% price and a modest volume decline. FX was a 6% headwind during the quarter. We saw strong performance across our longer cycle Field businesses, which grew 10% in the quarter.

Our shorter-cycle Global Products business grew sales 7%, impacted by a slowdown in residential demand. Adjusted segment EBITA increased 15% with margins expanding 140 basis points to 13.7%. Positive price costs and improved productivity more than offset unfavorable business mix.

Adjusted EPS of \$0.67 was at the high end of our guidance and increased 24% year-over-year. During the quarter, we absorbed an additional \$0.01 of FX headwinds versus the prior guide. Free cash flow returned to the normal seasonal pattern with the usage to start the year. In addition, inventory levels were impacted by softness in residential as well as continued supply chain disruptions, which while improving impacted our ability to satisfy growing demand in commercial.

Turning to our EPS bridge on slide 10. Overall, operations contributed \$0.19 versus the prior year, including an \$0.11 benefit from our productivity programs for which we are on track to meet our targeted savings for the year. In the quarter, FX was a \$0.04 headwind. Below the line, higher net financing charges and corporate expense were offset by lower share count and favorable non-controlling interest.

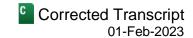
Please turn to slide 11. Total orders for our Field businesses increased 5%. As George stated earlier, orders in the quarter were affected by timing and COVID-related impacts in China. Order timing had the largest impact within our Install business, which grew 1% in the quarter. We were encouraged by 10% order growth in our Service business, driven by double-digit growth in both EMEALA and APAC.

Field backlog remains at record levels, growing 11% to \$11.3 billion, a \$800 million increase versus the prior year, while growing \$250 million sequentially. Our Global Products third-party backlog grew more than 30% over the prior year to \$2.8 billion.

Let's now discuss our segment results in more details on slides 12 and 13. Sales in North America were up 10% organically with broad-based growth across the portfolio. Our Install business grew 12%, with low double-digit growth in both retrofit and new construction. Overall, HVAC and Controls continues to gain momentum, growing mid-teens year-over-year, while Fire & Security increased high single-digits.

Order timing mainly impacted North America as orders increased 6%, with solid growth of 7% in our service business. New construction orders grew over 50% primarily in HVAC. In aggregate, Fire & Security orders grew low single-digits. Total backlog ended the quarter at \$7.5 billion, up 16% year-over-year. Segment margins decreased 30 basis points year-over-year to 11.3%, as positive price/cost and ongoing productivity benefits were offset by unfavorable project mix.

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Sales in EMEALA grew 12% organically, with strong performance in applied commercial HVAC and Fire & Security. Our service-based business was strong in the quarter, growing mid-teens year-over-year with recurring revenue contributing low double-digit growth. Orders were up 5%, led by over 20% growth across our Fire & Security platforms, which was partially offset by declines in HVAC and Industrial Refrigeration. Backlog was up 5% year-over-year to \$2.2 billion.

Segment EBITA margins declined 310 basis points to 7.7% as a result of unfavorable mix and dilutive price/cost, which offset favorable volume leverage and the benefits of cost savings during the quarter. Sales in Asia Pacific increased 7%, driven by mid-single-digit growth in our commercial HVAC and Controls platform. Service performed well in the quarter, growing low double-digits, benefiting from our shorter-cycle transactional business, primarily in HVAC and Controls.

China grew 1% in the quarter, impacted by COVID-induced lockdowns. As China continues to reopen, we are encouraged with the momentum building within that region. Orders declined 1%, as low double-digit growth in Service was offset by a decline in HVAC and Controls installation. Overall, Install orders declined 5% organically. Backlog of \$1.6 billion declined 1% year-over-year.

Segment EBITA margins increased 40 basis points to 10.5%, driven by positive price/cost and productivity savings, which offset lower volumes and FX headwinds over the quarter. Sales in our shorter cycle products business increased 7% in the quarter, benefiting from strong price realization of 11%. Commercial HVAC product sales were up low double-digits, with strength in light commercial driven by over 20% growth in North America and EMEALA, respectively.

Applied HVAC sales were up low double-digits, with continued demand in chiller within our data center end market. Outside of North America, our global residential HVAC sales were up low single-digits. North America resi HVAC declined 20%, as the overall market softened and we were challenged by unfavorable product mix in the channel.

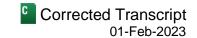
Our HVAC business grew mid single-digits, led by more than 25% growth in applied within EMEALA, as well as strong demand from our Hitachi commercial heat pump in EMEA. Client security products grew high single-digits in aggregate, led by continued demand in North America and in the Middle East for our fire detection products. EBITA margins expanded 580 basis points to 20.3%, driven by positive price/cost and the benefit of productivity savings.

Turning to our balance sheet and cash flow on slide 14, we ended Q1 with \$1.5 billion in available cash and net debt at 2.2 times, which is within our target range of 2 to 2.5 times.

Now let's discuss our fiscal 2023 guidance on slide 15. We were pleased with our start of the year and are encouraged by the continued strength and resilience in our order and backlog. Our backlog grew double-digits and remains at record level. We are providing Q2 organic sales guidance of approximately 10% growth, with price being the principal contributor. Segment EBITA margin is expected to expand 100 basis points to 110 basis points, and adjusted EPS is an expected range of \$0.72 to \$0.74, which represents year-over-year growth of 15% to 18%.

On a full-year basis, we are raising the lower end of the wide range we introduced to beginning the year. While we are encouraged with our strong start to the year and our current second quarter outlook, we continue to take a cautious outlook for the full year given the ongoing macroeconomic uncertainty.

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Our full-year adjusted EPS guidance range of \$3.30 to \$3.60 represents growth of 10% to 20%. The top-third of our EPS range signifies our base case scenario. This account for normalized GDP growth, continued growth vectors acceleration and conversion of our existing backlog. The low end of this range provides a bookend reflecting a potential macro downside scenario, which accounts for a potential degradation of global GDP that we believe will be offset by our resilient services and commercial market presence, along with additional cost mitigation actions.

On the top line, we anticipate high single-digit to low double-digit organic growth, with price representing about 10%. We anticipate segment EBITA margin expansion of 90 basis points to 120 basis points, as we continue to execute our higher booked margin backlog throughout the fiscal year. Full year free cash flow conversion is expected to be between 80% to 90%. Operationally, we continue to improve our working capital management and expect further improvements from the gradual reduction of inventories, as the supply chain normalizes.

As George mentioned, we are pleased with the strong start to the fiscal year. Whilst supply chain disruptions continued to impact our Global Products business, we see positive momentum in our Field-based services. Across our vectors of growth, our pipeline remains robust, and we are well positioned to capture secular tailwinds while continuing to improve our operational execution as we navigate through the first half of the fiscal year.

With that, operator, please open up the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] . Our first question is going to come from Nigel Coe from Wolfe Research. Nigel, your line is open.

Nigel Coe
Analyst, Wolfe Research LLC

Thanks and good morning everyone. So...

George R. Oliver
Chairman & Chief Executive Officer, Johnson Controls International Plc

Good morning, Nigel.

Nigel Coe
Analyst, Wolfe Research LLC

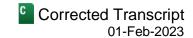
So – hi, guys. So, yeah, you mentioned field – timing for field orders come in at plus 1%. So, maybe just – can you just like double-click on what's causing some of the delays that perhaps you didn't expect? China, I think I understand, but outside of China

understand, but outside of China.

George R. Oliver
Chairman & Chief Executive Officer, Johnson Controls International Plc

When you look at our field orders, what is encouraging, although the Install was up 1%, services was up over 10%, and we're very encouraged with the progress we're making there, Nigel. On the Install side, it's mainly a couple of factors here that impacted us here in the guarter. It was the China, the COVID lockdowns. We have

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incredible pipeline. But because of the disruption and ultimately the delay in getting those closed, impacted us in the quarter, and that's 1% to 2%.

And then in our project-based business, as we now drive our vectors of growth around sustainability and healthy buildings, there's larger projects. And a lot of these, it's hard to predict the timing of conversion. And so, that amounted to another roughly 1% to 2%. Those are the key drivers as far as the orders, field orders. Nigel, the backlog is up over 11%. The pipeline continues to be strong double-digits in our conversion. And so, as we're now executing on the strategy, we are encouraged that our conversion is going to continue very strong here in Q2 and beyond for the year. And then now the way that we've been set up here with the backlog being up for the year really does give us a lot of confidence in our ability to be able to deliver on the guide that we provided for the full year.

Nigel Coe

Analyst, Wolfe Research LLC

Great. Thanks, George. And then my follow-up question is on the margin expansion for the full year. You've raised the bottom end by 10 basis points. So, I'm curious, has the mix between the segments change? And I'm referring here to the – obviously the strength we saw in Global Products, the weakness we saw in EMEALA. So, just wondering, if the mix of that margin expansion has changed at all.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

We're making tremendous progress on our margins and it's not only – this has been over the last couple of years instilling a discipline around price cost. And more important about the value propositions that we're bringing to the market with our vectors of growth. And so, we've got – you see that not only in our shorter cycle business with our Global Products and the strength that we're having in margins that's combined, not only the value proposition, but now also the additional productivity that's playing through and the leverage that we're getting on that.

And so, as we projected, the current year, we're going to continue going to see momentum in margins because of the longer cycle business. We've got strong margins in backlog as we increase the velocity on the turn of these projects, you're going to start to see much stronger margins come through on the rest of the year. So, Olivier, maybe you can comment on the segments.

Olivier Leonetti

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

Absolutely. So, one clarifying point on the orders, we expect as an impact on orders due to the move of the orders from Q1 to Q2, orders in the field to be high single-digits in Q2. Regarding the margin, we expect Global Products margin to remain strong for the rest of the year. And we expect the field margin to turn positive in Q2, probably about 51 basis points to 100 basis points at the segment EBITA level and increased day after significantly with a strong increase as we end the year, Nigel, in the Field business.

Nigel Coe

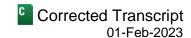
Analyst, Wolfe Research LLC

Great. That's very helpful. Thank you.

Operator: Our next question comes from Joe Ritchie from Goldman Sachs. Joe, your line is open.

FACTSET: callstreet
1-877-FACTSET www.callstreet.com

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Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Thanks. Good morning, everyone.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

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Good morning, Joe.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Olivier, I want to pick up off that last point on field margins improving. And so, you guys called out unfavorable mix, both in North America and EMEALA. I want to understand that a little bit better. And then specifically, on North America, I know that you guys saw the sequential improvement last quarter, but the margins now have been down year-over-year for the last seven quarters. So, just help us understand what's driving the confidence in those margins getting better from here. And what was the issue with unfavorable mix that was coming through the Field business this quarter?

Olivier Leonetti

Α

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

So, it would be from a project to – projects mix, so larger projects flowing through in the quarter. If you look at a high level, and we have discussed that Joe before, we have booked orders at a higher level of margin all through last year. And those orders are now starting to flow through to the Field business. So, as I indicated to Nigel earlier, we expect the field margin to improve at a segment EBITA level in Q2 by 50 basis points to 100 basis points and keep increasing thereafter. That would include also our North America business. The expectation for the margin increase in segment EBITA level for North America in Q2 is expected the increase to be over a full point.

So, as we keep converting the backlog as we – which is at a higher margin, as we keep delivering our productivity initiatives, as we keep increasing the mix of our service business in our company, which was very strong in Q1, we expect this momentum to continue in Q2. You will see the field margin business to increase, I would say, materially between Q1 and Q4, Joe.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay. That's good. It's good to hear. And I don't usually ask questions on North America resi business because it's a small portion of the overall portfolio, but it was pretty interesting to see that business down 20%. I think you guys called out product mix in the channel. So, maybe provide a little bit more color what's happening there because it seems to be a little bit lower than what we've seen reported so far from some of your peers?

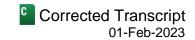
George R. Oliver

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Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. When you look at our North America resi [indiscernible] (00:27:42) business, when you look at the overall market, it's down in units in the teens. Now we were down more than that. And it's really two big factors here. This is where we've had – coming into the year, we still had continued supply chain disruptions. We also had the launch of our new product, the 2023 product. We worked through that. We worked through the supply chain. So, although we were down further in units, we had strong pricing coming through. We worked with our distributors.

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And there's another key point to make. On our field direct channel, which is a small portion of our distribution, we were actually up 13%. And so, that's similar to what others have seen.

On the distribution side, we worked with our distributors in making sure that now, as we have continued to improve our supply chain through the quarter, that we're going to be positioned to be able to deliver on their expectations from a demand standpoint as we now go through the rest of the year. And so, when you look at the rest of the year, we are projecting that the market will be down high single-digits in units. There will be continued strong pricing coming through, and will be in line with the industry. And we believe that, now with our recovery of the supply chain, we actually start to pick up some of the share that we had lost over the last year due to the supply chain.

Joe Ritchie Analyst, Goldman Sachs & Co. LLC	Q
Got it. Very helpful. Thank you.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	A
Thank you, Joe.	
Operator: Our next question comes from Steve Tusa, JPMorgan. Steve,	your line is open.
C. Stephen Tusa Analyst, JPMorgan Securities LLC	Q
Hi, guys. Good morning.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	Α
Good morning, Steve.	
Olivier Leonetti Chief Financial Offices & Fraguetius Vice President Johnson Controls Intermetional Dis	A
Chief Financial Officer & Executive Vice President, Johnson Controls International Plc Good morning.	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
C. Stephen Tusa Analyst, JPMorgan Securities LLC	Q
If I look at roughly kind of the \$3.50 or so where consensus is, it implies we about \$2, \$2.10 or so of earnings in the second half. That's about \$1 per g	. , ,

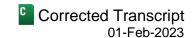
If I look at roughly kind of the \$3.50 or so where consensus is, it implies we're using the midpoint of your guidance about \$2, \$2.10 or so of earnings in the second half. That's about \$1 per quarter by my math. Would you – is that kind of the right type of seasonality? Would you expect fourth quarter to be above third quarter and how materially above? Maybe just give us a little bit of a – little more color on how the third and the fourth quarters break out EPS-wise?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. At the high level, Steve, when we look at our build for the year, we were in a very different place this year than we were last as we're now continuing to accelerate our capacity expansion across our product-based businesses. And we've seen a nice ramp, for instance, in our applied businesses. In some cases, we're

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expanding capacity two or three times, and we started to see that volume come through. And then we have worked with our supply chain.

So, we're very much aligned now going into our seasonal ramp as well as the recovery of our backlog to be able to begin to accelerate here in Q2, and that will continue through the seasonality that we see in Q3 and Q4. And so, we're in a very different place than we were a year ago and being able to execute on that ramp.

And I'm very encouraged with the work that we've done, especially across our applied business where, from a core strength, that is our strength, and we're beginning to see that pick up across the board. So, Olivier, I don't know if you got any additional.

Olivier Leonetti

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

No, not much more to add. The backlog conversion now is going to have its full impact. It will be very strong from Q2 onwards. The productivity initiatives are still well on track. We are identifying new productivity initiatives all through the year. The backlog is very resilient. Our service mix is very strong, accelerating significantly across the portfolio. So, we see margin expansion clearly in the second half, Steve.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

So, like is \$1 around the right number for 3Q, and then it kind of steps up a bit from there? Or is it more fourth quarter weighted, maybe just a little more precision to get people in line?

Olivier Leonetti

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

Roughly, you're in the ballpark, Steve, indeed.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. And then one – just one last one on non-res activity. You said that things are – you expect things to pick up here. What are you seeing in January on that front? I assume you're seeing some positive things? And what's the latest outlook on how things trend in the back half of the calendar year?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yes. When we look at our pipeline and we track our pipeline very closely, especially as it relates to all of the – our growth vectors and then the overall general market. When you look at the Dodge number and when you look at that growth, we are lagging that. So, we're seeing significant opportunity there as that plays through. We are watching the ABI, which is longer-term from projects that are coming to market. It did soften in November. It did come back and stabilize in December.

And so for us, it's – and then when you look at our mix of our businesses, with the demand for our core applied business, when we look at our chillers, when you look at Industrial Refrigeration, you look at our data center offerings, across our supply – across that portfolio, we're seeing incredible demand. And we're working to make sure that we're executing on the capacity expansions that we made – that we started over a year ago to be positioned to be able to support that demand, and we're making good progress, Steve. So, from a non-res, as far as our mix and where we see our strength to be, we see continued very strong activity building in the pipeline.

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C. Stephen Tusa Analyst, JPMorgan Securities LLC	Q
Great. Thanks a lot.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International PIc	A
Thank you.	
Operator: Our next question comes from Julian Mitchell from Barclays. Julian,	your line is open.
Julian Mitchell Analyst, Barclays Capital, Inc.	Q
Hi. Good morning. Maybe I just wanted to	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	A
Good morning, Julian.	
Julian Mitchell Analyst, Barclays Capital, Inc.	Q

Good morning. I just wanted to start off perhaps with the inventory and the cash flow, because I think the inventory was up about \$400 million sequentially, and it seems like it's a mix of kind of too much supply and too little demand in things like resi, and then too much demand and too little supply in some other areas like commercial HVAC. So maybe just help us understand kind of what's going on in that inventory balance. And then what does that mean for the pace at which free cash flow improves over the balance of the year? Do you think free cash flow can be up year-on-year in the current second quarter, or it's more of a sort of second half recovery on cash?

Olivier Leonetti

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

So, if you look at, first of all, the full guide, it's unchanged, 80% to 90% free cash flow for the full year. If you look at the seasonality of your question, we believe we're going to go back to historical free cash flow generation seasonality. That means that we should be, year-to-date at the end of Q2, close to breakeven from a free cash flow standpoint. You can infer from that that we would be positive in Q4 – in Q2, I'm sorry. So, breakeven year-to-date at the end of Q2, positive in Q2.

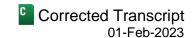
You're right. Inventory was the key variable explaining what happened in free cash flow in Q1. Largely, George covered that. Resi and some mismatch of inventory is what is explaining this trend. We believe that this is going to keep improving all through the year. We have detailed action in place. And we believe that breaking even after the first half is an achievable goal from a free cash flow standpoint.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

So, Julian, just to add to that, as you look at our commercial applied business, in many product lines, we're doubling, in some cases tripling. And we're in the process of building up and being able to achieve that output

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through the course of the year. So we're in a build, and we're making good progress on the applied business. When you look at our total applied business with what we do externally as well as internally, it's up very strong here in the first quarter.

And then the second is what Olivier said, as we work through the residential disruption, it's really comes down to one plant on supporting our residential business with the disruption that we had really coming into the quarter. We've worked through that, and we're positioned to adjust. Given the mismatch we had, we've lined out with our distributors relative to what they expect. And we have confidence that that's going to normalize here over the next quarter or two.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thanks very much. And then I just wanted to circle back to the North America Field business again, because you've had, I think, seven quarters now of down margins year-on-year. The Q1 margin was 200 points lower than it was two years ago. And I think you had mentioned mix as a headwind specifically in the first quarter, but clearly, there have been issues pre-dating that, pulling down the margin. And it seems like it's taken longer than you'd expected to get that North America Field margin to turn the corner.

So, I think clearly the guide embeds an improvement there getting to that \$1 of EPS, for example, in Q3. But maybe give us a bit more color on what you're doing kind of inside that organization to get the margins to turn around, and how much of the improvement in margin is that internal self-help versus getting some sort of macro or supplier benefits?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

And so let me touch on that, and I'll turn it over to Olivier. When you look at the turn, so what we've booked over the last – it's really been the last year, 15 months, what's been turning some of the longer cycle projects that are turning now, and you look at what's going to turn second, third, and fourth quarter, a much higher mix, Julian, relative to what – the margin that we booked into the backlog. And that margin is tied to much greater value propositions. And then ultimately, in installed base, it's going to spin off service.

And so, we're going through the last of the tail that was prior to this inflationary period of projects that are still coming through. But I have confidence that when we look at what we've been – how we've been building these projects costing and then ultimately executing, you're going to start to see a nice pickup in margins.

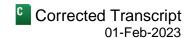
And I think – and then the other factor is that the velocity of our turn, because of the improvement in the supply chain, you'll start to see much higher productivity because the velocity of being able to turn these projects more consistently as we work through the year. Those are the two big factors. Olivier, maybe you could comment on the margin rate.

Olivier Leonetti

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

Absolutely. So as a byproduct of the speed of the backlog conversion, we would see, as I indicated earlier, Julian, margin expansion. I can go a bit more into the details of the numbers here. So probably in Q2, we would expect segment EBITA margin to increase close to a full point. And today, for Q3, we are planning actually close to a 4 points margin improvement in this business, not assuming, not assuming a significant change in turn rates of the backlog.

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Julian Mitchell Analyst, Barclays Capital, Inc.	Q
Great. Thank you.	
Operator: Our next question comes from Scott Davis from Melius	Research. Scott, your line is open.
Scott Reed Davis Analyst, Melius Research LLC	Q
Hi. Good morning, George and Olivier, and welcome, Jim	
Jim C. Lucas Vice President-Investor Relations, Johnson Controls	A
Thanks, Scott.	
Scott Reed Davis Analyst Melius Research I C	Q

....to the call and our world again here. But, guys, I think that the story really, this cycle has been about pricing power. And I'm kind of curious to see as demand kind of flattens out here and maybe some of the big COVID drivers kind of anniversary, what's your confidence that price is something that you can continue to capture? And I don't really mean in your backlog. What's in the backlog is in the backlog, I suppose, but in forward contracts, when you start to think about back half of 2023 and into 2024.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

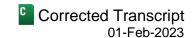
Yeah, Scott, as we look at what we've done as we've been executing on the strategy that we outlined a couple years back and where we are in that journey, it's really now capitalizing on a much bigger value proposition as we focus on our vectors of growth. And that's not only in how we pull together our combined capabilities within our products, but now with OpenBlue and ultimately are creating solutions that deliver on an outcome for our customers, and the outcome is typically focused on energy reduction, obviously heightened indoor environmental quality, and then ultimately leading to an autonomous building.

And as we focused on our core, and then when you look at the contribution that our HVAC business has to being able to achieve those outcomes, it is significant. And so, the value proposition comes with being able to create a solution that's very different than what historically has been provided, leveraging our technology and then being able to really leverage the core in how we ultimately deliver on that with the technology that we have in our products.

And so, we're confident that when you look at how we're pricing today, the value proposition we bring and the new products that we're bringing to market, our new product investment is up about 25%, 28% year-on-year. We've got the leading portfolio in heat pumps. Heat pumps now today are going to be a big part of the solution and being able to reduce energy while we're continuing to enhance the indoor air quality.

And we have new heat pumps pretty much across the board where that technology is being applied across our entire portfolio from the most complex industrial applications with our chillers and Industrial Refrigeration across all of our commercial products, rooftops as well as our applied air-cooled chillers going into data centers and then across our residential portfolio.

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So, I'm confident that with the technology, the value proposition, and then our ability to fundamentally change how we serve our customers with solutions that focus on outputs delivering for them, we're seeing significant momentum on that.

Scott Reed Davis

Analyst, Melius Research LLC

That's helpful, George. And when you break – I mean, it certainly makes a ton of sense in HVAC. When you think about Fire & Security, how has that sales pitch kind of changed over the last few years? I mean, I certainly understand the connected building, but how specifically has that value proposition, I guess, which is so tangible in HVAC, but perhaps less so in Fire & Security. Maybe you can update us there? Thanks.

George R. Oliver

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Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. The way that we've leveraged our Fire & Security portfolio today, it's still very attractive. It's still 40% of our revenues. It's core to building systems. On the digital side, they are critical systems that do integrate with an overall smart building. And because of the sensors that these systems bring into the building, very important for the data that we collect within OpenBlue and how we ultimately create a smart building. So, it starts there.

Now you would argue that there's more around the security systems. So, whether it'd be access control, intrusion or video, those are very important sensors and systems that historically have been separate and apart, but then ultimately converge with our building controls and the other digital systems within the building that with now – with OpenBlue, we can bridge all of those systems into one solution, into one data set.

So, it starts there. And then from a fire standpoint that when we install a fire system, that the value proposition that we bring through service is significant in our ability to be able to connect and monitor and ultimately be very proactive in how we support our customers through service. So, those are the two – when you think about Fire & Security, the value proposition that it has into the solution set that we're building and ultimately differentiating the outputs that we can create for the customers that we serve, Scott.

Scott Reed Davis

Q

Analyst, Melius Research LLC

Okay. Make sense. Best of luck guys for 2023. I'll pass it on.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

A

Thank you, Scott.

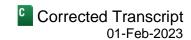
Operator: Our next question comes from Noah Kaye from Oppenheimer. Noah, your line is open.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Good morning. Thanks. Maybe circling back to supply chain health. Can you give us a little bit of a better sense of what you saw across the business lines during the quarter, particularly in Global Products? Maybe quantify any impact on how much revenue was pushed and then just your line of sight on the supply chain helping that improving pace of backlog conversion?

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George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. Looking at our Global Products, when you look at the impact that we had, and I think the other point to make here on our Global Products volume, we had a fire in a warehouse within our fire suppression business. It impacted the finished goods that we had stored. And although we work to try to recover that in the quarter that impacted our growth rate at the product level about 2% or 3%. So, that is a big factor. We're going to recover that volume here in the second quarter and most of it in the second quarter, but maybe into the third quarter. So, it's worthy to mention that.

The resi demand hit us for another roughly 1% to 2%. And then when we look at China and then the ability to be able to – we're significantly ramping up our applied businesses. So, when you look at our applied mix, we're up double-digit across the board. And so, we're confident that with the capacity expansion, with the work that we've done with our supply base and making sure we have visibility to the volumes as we ramp, like I said earlier, in some cases, we're doubling or tripling our volumes in our applied space.

So, I'm confident that although – and then when you look at our total product units, we're relatively flat because some of the units do go into our direct channel solutions. So, we're going to be ramping here. We're going to deliver unit growth here as we position for Q2. That will continue to expand as we go through Q3 and Q4. Those are the key factors, Noah, that have been impacting our ability to be able to turn.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Okay. Very helpful. And then just wanted to circle back to orders timing. Maybe we can focus particularly on sustainability. We look at the pipeline growing, was it 26% versus the orders growth in the quarter? We've obviously had a lot of significant relevant legislation and policy. How much of this is that playing into the actual timing as clients figure out the implications? And are we waiting for things like treasury guidance before more folks sign? Is there any kind of an expected air pocket here? Or do you expect that conversion to significantly increase in the next quarter or two?

George R. Oliver

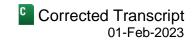
Chairman & Chief Executive Officer, Johnson Controls International Plc

We're expecting that this is going to continue to significantly increase. When you look at the IRA, there's \$369 billion in incentives over the next 10 years. We believe and it's all focused on electrification, which we deliver through heat pumps. It's focused on impact on grid capacity and generation, which we do incorporate renewable supply into our solutions and then just overall energy efficiency. This is right in our sweet spot. And so, we think the \$369 billion actually multiplied by 5 times to 10 times given the amount of resource that will be put to work and being able to deliver on our customers' sustainability goals.

And so, when you look at the pipeline that we're working to convert, it's well over \$7 billion. We had – last year that had ramped up to about \$1 billion. Last year, we see that accelerating over the course of the year. These are larger projects, so it's hard to predict the timing of conversion. But our teams, we've got the team on the field that with the depth and expertise, I think that fundamentally changes how we can go about serving our customers with the type of solutions that we're developing.

And all of that is delivered – when you think about the optimal solution, it's not just the equipment because we have leadership equipment. We're developing a leadership portfolio of heat pumps. But it's how the equipment comes together with our digital platform that ultimately delivers on our customers' expectations. And that's what's

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going to, I think, differentiate us, Noah, as we build not only build the pipeline, but begin to convert and capitalize on the opportunity ahead.

And just one last note, in Europe, it's similar in Europe. I mean we talked about the IRA. But we've been working very closely with the EU with a number of their strategies, the Green Deal, Net Zero by 2050. They've got the EU level legislation around. They got climate law. They got an energy performance of buildings initiative. And then, more recently, it was the REPowerEU focusing on the independence from Russian fossil fuels. All of these activities, we've been aligned working and making sure we're aligned so that we're going to be positioned to ultimately achieve the goals that they're setting out to achieve.

Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q	
That's very helpful color, and I'll correct myself that healthy buildings pipeline was up 26% and sustainability 20%. So, thank you for the color.		
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc Take care Noah.	A	
Operator: Our next question comes from Jeff Sprague from Vertical Research. J	eff, your line is open.	
Jeffrey Todd Sprague Analyst, Vertical Research Partners LLC	Q	
Hey, thank you. Good morning, everyone.		
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc Hey, Jeff.	A	
Jeffrey Todd Sprague Analyst, Vertical Research Partners LLC	Q	

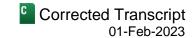
Hey. I just wanted to actually come back to, I guess, a couple of topics that have already been addressed, but just to really kind of clarify. First, just on the notion of margins improving on kind of acceleration of execution out of the backlog, it doesn't seem like that's what you're guiding. I don't know if you updated the volume forecast for the year. But I guess, your guide sort of assumes kind of little or no volume growth. So, I guess the first question is, is it that you expect acceleration to happen, but you're not quite willing to guide that way yet. Or is there some governing factor, supply chain, labor on the job sites, that sort of thing that you're looking to get past first?

Olivier Leonetti

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

So, if you look at the margin acceleration, which is a byproduct of the backlog conversion, as you said, Jeff, that is not really a variable associated with unit volumes. If you look at the Field business, which is about \$16 billion of revenue for the enterprise, this is more and more a business which is solution based, where you need less and less a relevant measure solution, because we sell services, we sell sustainability, we sell indoor air quality. So, the margin acceleration is a byproduct of just the conversion, and we are planning, to your point, for volume to be growing low single-digits, about 2% for the back half of the year.

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Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Great.

Coordo D. Olivor

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

And then a comment on that, Jeff, as we have instituted over the last two years, the significant improvement in our ability to strategically price and then make sure that we're within that pricing, we're incorporating future inflation. So, as we're costing in these longer cycle projects, making sure we have the right cost and the right terms and conditions and the like, that has significantly improved. And so, when we look at what's going to turn in the next three quarters, a high percentage of the projects that are going to turn are in backlog.

And the margin is as we have been working through the older backlog that was priced prior to the inflationary period, that is becoming less and less. And so, we're confident that what's in the margin in backlog is a significant step-up. Now it's just our ability to be able to minimize disruption, get more precise relative to the material flows that support these projects. And by doing so, we accelerate the velocity of the turn. And what that does, it gives us higher productivity and then also, from an inventory standpoint, our ability to be able to recognize revenue with the execution on a shorter cycle.

So, that's a big element. And so, I think we're cautious relative to the continued improvement that we're seeing in those factors, but we're confident that the margins that have been booked are going to turn – in turn and be significantly improved over the course of the year.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

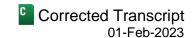
And thanks for that. And that partially addresses my second question. But I did want to come back to kind of projects and mix. So, you pointed to kind of large projects being mix negative in the quarter. And I think a lot of the kind of OpenBlue healthy buildings, indoor air would inherently often be larger projects. Is it an issue that the stuff that's coming through the backlog is also as you say, maybe wasn't priced appropriately for the inflation that was coming, but also just inherently had less of the newer stuff embedded in it? Really want to kind of understand if we're waiting on big projects to come through that. In fact, when we convert them, they're margin-accretive to the equation.

George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc

I mean it's actually the opposite, Jeff. We – when you look at our core, we have focused our field-based business on our strategy to really differentiate and capitalize on the growth vectors which is ultimately the energy reduction, the healthy environment and then overall automation of building. Making sure that everything we do is deploying our core capability, core technology, getting it connected, and then ultimately converting it to a service. So, by doing so, it has refocused the business, so that we're – the value proposition is greater with what we do.

And taking out a lot of the historical contracting that we might have done that ultimately was low margin and didn't convert to services, there's a much higher focus on leveraging our core, obviously, leveraging digital and then ultimately delivering on outcomes that historically hadn't been achieved. And so I think from that standpoint, when you look at our applied product business, we are up – it's up double-digit with the applied products flowing into our channel, which ultimately is helping us create a bigger installed base. It's also getting the connectivity to that

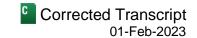
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base, which then drives us to be able to create new value propositions with the data that ultimately we use from that installed base. **Jeffrey Todd Sprague** Analyst, Vertical Research Partners LLC Great. Thanks for the color. Appreciate it. George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc [ph] Thanks, Jeff (00:55:33). **Operator:** Our next question comes from Nicole DeBlase from Deutsche Bank. Nicole, your line is open. Nicole DeBlase Analyst, Deutsche Bank Securities, Inc. Yeah. Thanks for taking my question. Good morning, guys. George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc Good morning. Nicole DeBlase Analyst, Deutsche Bank Securities, Inc. I just kind of wanted to pick off where Jeff just left off, because I'm not sure I'm totally getting it. So, I mean, if we think about - it seems like unfavorable mix was the big cause of the weaker margins in the Field business this quarter. But it seems like you do have confidence that then unfavorable mix will not be a factor throughout the rest of the year. So I guess, what is the risk that larger projects come through again greater than you expected in the second guarter to the fourth guarter, driving then unfavorable mix again? That's the piece that I'm just not getting. Thank you. George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc Yeah, a simple fundamental is we track how we book and what was booked from a cost standpoint, and how does that tie to the value proposition, and then how it turns. And so, Nicole, when we talk about mix, on a forwardlooking basis, you have a much - every quarter, you have less of the older projects that maybe didn't incorporate the higher inflationary rates that we now have experienced over the last 18 months or so. And so, when we talk about mix, it's part of that, as well as our ability to be able to then – everything we've been booking from a strategy standpoint is more aligned to how we create an installed base and ultimately get a recurring revenue from that installed base with service. And that is when we talk about, on a go-forward basis, that will – that continues to improve, recognizing that we still have projects that will be turning that didn't necessarily have that factored in. Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

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Okay. Thanks, George. That's really helpful clarification. And then the second thing I just wanted to hit on is the gross – sorry, the Global Products margins have been really impressive, and I think a big driver of upside or offset to Field weakness for several quarters now. I guess, like what's the confidence that you can continue to improve Global Products margins from here? At some point, do you kind of see somewhat of a margin ceiling? Thanks.

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

Yeah. If you look at today, so we believe we're going to be able to maintain the margin in Global Products and keep improving the margin in the Field. I know, Nicole, just to go back to your prior question on mix, the backlog conversion is the big variable for mix improvement more than anything else. And we have high confidence in that now happening with no improvement in lead time.

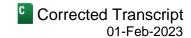
Going back to your global margin question, you go back to what George has indicated, we are mainly exposed to the commercial market today in Global Products. Resi is a small proportion of our portfolio. And in Global Products, we are investing heavily in heat pump. If you look at the new product introductions today, 90% of them are very strong heat pump capabilities.

We bought a small asset also in the quarter with [indiscernible] (00:58:46) heat pump. So we believe that the channel, the strength of the portfolio is going to keep allowing us to maintain a strong margin in Global Products. And there was no – if you look at the macro, Nicole, today from a commercial standpoint, it's still strong for commercial.

Nicole DeBlase Analyst, Deutsche Bank Securities, Inc.	Q
Thanks, Olivier.	
Operator: Our next question comes from Josh Pokrzywinski from Morgan Stanley.	Josh, your line is open.
Joshua C. Pokrzywinski Analyst, Morgan Stanley & Co. LLC	Q
Hi. Good morning, guys.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	A
Good morning, Josh.	
Olivier Leonetti Chief Financial Officer & Executive Vice President, Johnson Controls International Plc	A
Good morning, Josh.	
Joshua C. Pokrzywinski Analyst. Morgan Stanley & Co. LLC	Q

Just a follow-up – yeah, good morning. So, just a follow-up on the IRA, wondering if that is something that you guys expect to start booking this year, and if we really don't expect to see any sort of shipments until 2024. Is that sort of the way you guys are thinking about the timing, booking start this year, and maybe start to see the revenue benefit next year?

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George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

A

Yeah. I mean, we're — obviously, we're already working with customers and working through what this means and how they go about it, and recognizing that we're obviously part of that as this bill was formed. And so, we're definitely going to start to see some momentum here on the order side. And then depending on the timing, how that flows through the year and into next, we'll continue to keep you updated. But that — this is ultimately helping to build the pipeline that we have and the confidence that we have in being able to turn — but not only book, but then turn sustainable solutions in. It's across all of our portfolio, right, from residential incentives, right up through some of the more complex offerings that we have.

Olivier Leonetti

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

Α

And, Josh, this is where the Field presence is very important. We have today a Field presence, allowing us to advise our customers about how to best leverage the benefits of the IRA.

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC



Got it. And then just on maybe a little deeper trip into the weeds on the IRA, I think there's like \$5 a square foot in commercial energy retrofit incentives. My understanding is some of the stuff like OpenBlue is significantly below that per square foot. Like, I guess, like it seems sort of like a layup for customers. What would hold them back, if anything? Or is it just the industry, yourselves included, can only install products so fast?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc



Yeah. I mean, it's just purely – there's an educational element that we're working through and understanding what it is, and then what we can do and how we can go about solving the problem and being able to capitalize on the incentives. And like to your point, the value proposition that we bring with the output that we can create, again, it becomes very attractive for the customer.

So it isn't a matter of – that I think that they're going to ultimately proceed. It's more just the timing of going through that initial upfront process in getting it defined and then ultimately being able to execute. But we're confident, Josh, with the solution set that we've built that we're going to be well-positioned to be able to capitalize on the dollars that come into the market as a result of that.

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC



Okay.

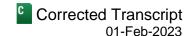
George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc



And some of it is, when you look at customers, it's also changing how they're thinking about whether it'd be capital or OpEx and how these business models are configured, and then how they match that to the benefits that they see. So, we're working through that. We've got a team that's working directly with our customer base in sorting that out, but we're going to start to see momentum on that both in the orders and then our ability to be able to convert.

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Joshua C. Pokrzywinski Analyst, Morgan Stanley & Co. LLC	Q
All right. Thanks. I'll leave it there.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	A
Thank you, Josh.	
Operator: For our last question, we have Gautam Khanna from Cowen. Gautam, your line is	s open.
Gautam Khanna Analyst, Cowen & Co. LLC	Q
Hi. Good morning, guys.	
Olivier Leonetti Chief Financial Officer & Executive Vice President, Johnson Controls International Plc	A
Good morning.	
George R. Oliver Chairman & Chief Executive Officer, Johnson Controls International Plc	A
Good morning.	
Gautam Khanna Analyst, Cowen & Co. LLC	Q

I was wondering if you could talk about any differences you're seeing in this forward pipeline, order pipeline between Fire & Security and the applied HVAC market. I remember back when you had your Investor Day, you thought those markets would grow at a similar rate. And is that consistent with what you're seeing today?

George R. Oliver

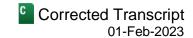
Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. So, on the Fire & Security, we are seeing strength in the – with the Dodge construction and the activity coming through, and we're positioned well on that on the – more the retrofit side. We thrive in from a service standpoint and how we upgrade and ultimately reconfigure indoor space and the like. And we're seeing a lot of that given the hybrid work and how people are coming back to work. And so, that is – those are the factors that drive Fire & Security. We were up, both orders and revenue up close to double-digit in both typically a little bit lower growth rate than what we see in HVAC.

And then HVAC is really being driven by what we've discussed here, frequently here during today's call around the value proposition, not only with the efficiency that we bring within the new equipment, but the deployment of heat pumps, for instance. We are in a situation where we've improved our technology with the temperatures that we can generate when you take a chiller and convert to a heat pump and then be able to replace a boiler, significantly reduces the carbon footprint for our customers.

At the same time, you're getting three times to five times the efficiency out of the unit. And so, you get a tremendous payback. And so, it's through these models, Gautam, that as we begin to unleash what we believe to

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be a very attractive market and does play to our strengths, that is going to be a different demand cycle than what historically we've seen in HVAC.

Olivier Leonetti

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

One statistic, Gautam, to complement what George has indicated, our adjusted pipeline growth today is in the mid-teens, just reflecting what George has indicated.

Gautam Khanna

Analyst, Cowen & Co. LLC

Okay. And then could you comment on your updated expectations for commodity inflation or deflation, I should say, this year? And then if you could just also comment on lead times that you guys are quoting in the applied commercial HVAC space. Thank you.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. So, on the inflation as it relates to commodities, we're watching that closely. Certainly, some of that has moderated. But as they've moderated, other costs have continued to increase. So, that's something we're watching closely. And certainly, I want to make sure that we stay disciplined with the impact that, that might have. I think what's important to us now is that the business proposition here is that, we're creating value not necessarily tied to purely price cost as what historically we would have done. So, I think that's one factor. And then the second on the – the second was on the applied – what was that?

Gautam Khanna

Analyst, Cowen & Co. LLC

The lead time.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

The lead times as a result of the strong demand. You've got to realize, Gautam, that as we've gone through the last year, we've had significant pickup in our backlog around applied. And so, on a go-forward basis, it's important that we get — we've been building our capacity. We were expanding a number of our plants, whether it'd be water cooled chillers or air cooled chillers or Industrial Refrigeration. Our data center solutions, we're significantly increasing our capacity as we've been ramping up, and we've been doing this in line with the supply chain recovery that we've been executing on.

And so, once – with this backlog, we're trying to address the backlog so that we can open up capacity with shorter lead times to now be able to capitalize on what we see to be very strong demand going forward.

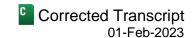
So, the lead times are being reduced. They're not to where we like them to be. But with the additional capacity we're putting online as we go through the year, we're going to be positioned very competitively from a lead time to be able to respond ultimately and support the customer demand that we see.

Gautam Khanna

Analyst, Cowen & Co. LLC

Can you give us what the lead times are today? Or is it like 9 months to 12 months? What do you think of it?

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George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc They vary. So it's hard to state any one, depending on the right from the residential to the large commercial, but

we've been reducing them significantly here over the last six months. We are now - with the additional capacity coming on board, I would tell you, our volumes in our applied business on a run rate basis with our chillers and then our water cooled chillers and our air cooled chillers, we're looking at volumes on a run rate basis that are going to be two times or three times. And so, as we're putting those – that capacity in place does give us an opportunity on a forward-looking basis to reduce the lead times that we're quoting to our customers.

Gautam Khanna

Analyst, Cowen & Co. LLC

Thanks guys.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Thanks, Gautam.

Operator: That was our final question for today. I will now turn the call back over to – for final comments.

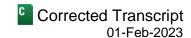
George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. And I'd like to thank everyone once again for joining us on today's call. As we have discussed, we have a very strong start to the fiscal year. I'm very confident in our ability to execute and continue the momentum in the coming quarters as we step - really step up into the next phase of our digital transformation journey. And with that, I look forward to seeing many of you over the conferences over the next couple of - next month or so. And with that, operator, that concludes our call.

Operator: That concludes the call. Thank you for participating. You may disconnect at this time.

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