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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Johnson Controls Fourth Quarter 2023 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note today's event is being recorded.

I would now like to turn the conference over to Jim Lucas, Vice President, Investor Relations. Please go ahead.

Jim C. Lucas

Vice President-Investor Relations, Johnson Controls International Plc

Good morning and thank you for joining our conference call to discuss Johnson Controls' fourth quarter fiscal 2023 results. The press release and all related tables that were 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 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 schedules attached to our press release and in the appendix to this presentation, both of which can be found on the Investor Relations section of Johnson Controls' website.

I will now turn the call over to 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. Before discussing our fourth quarter and fiscal 2023 results, I wanted to take a moment to thank all of our employees for their quick, agile response to the cyber incident beginning in the last week of September. Our teams responded quickly and worked diligently to minimize the impact from the incident. We greatly appreciate everyone's patience from customers to suppliers, to shareholders as we work through our remediation efforts. We now have the incident behind us and our operations are back to normal.

Now, let's begin with slide 3. We feel it is important to not lose sight of the strong year we had in fiscal 2023, regardless of the impact on our fourth quarter results from the cyber incident. For the full year, we grew sales organically 8%, expanded segment margins 80 basis points to 15% and delivered adjusted EPS growth of 17%.

We saw continued strength in our Service business as our efforts in maximizing our large installed base are coming to fruition. In fact, we grew Service 10% for the year with solid order momentum ending the fiscal year. Our total backlog grew 9% to $12.1 billion as demand remains strong across our Commercial Building Solutions offerings.

In fiscal 2023, we generated $1.8 billion in free cash flow, which represented 76% conversion. During the year, we returned $1.6 billion to shareholders via dividends and share repurchases. Our capital allocation strategy remains unchanged, targeting to return 100% of our free cash flow to shareholders through dividends and share repurchases.

We have the highest conviction ever in our strategy to lead in Building Solutions, and we'll continue to prioritize allocating capital accordingly toward that objective. Overall, we are pleased with our continued execution despite macro-driven headwinds over the fiscal year and believe that we are well positioned heading into fiscal 2024 with our strong backlog and resilient service business.

We're initiating guidance for fiscal 2024 for approximately mid-single-digit sales and adjusted EPS growth, respectively, and for free cash flow conversion of approximately 85%. Olivier will provide additional color on the guidance later in the call, but fiscal 2024 will show improvement following a seasonally slower first quarter.

Now turning to slide 4, Demand for our Building Solutions is accelerating with our customers around the globe, as we are developing Applied solutions to deliver outcomes that save energy and reduce emissions, while improving the overall occupant experience.

We are able to achieve these outcomes not only through our leading domain expertise in Applied HVAC & Controls solutions, but also through world-class fire detection and protection and smart security solutions enabled by an industry-leading digital platform, OpenBlue, all of our systems build on each other and are complementary components of our total solutions offering.

The journey starts with our customer as we design, digitize and deploy solutions that achieve efficiency, sustainability and decarbonization. This turnkey offering drives operations, service and maintenance, which underpin our as-a-service offerings that make buildings smarter through our digital solutions. This helps our customers enable peak operating conditions, protect investments and achieve the lowest lifecycle cost.

Johnson Controls is unique with our value proposition to make buildings smarter through OpenBlue. Our comprehensive ecosystem of connected digital solutions for buildings can break down silos and connect building systems regardless of equipment OEM and make them interoperable to build resiliency and efficiency.

We were honored recently to be ranked number two on the Guidehouse Insights Leaderboard in an assessment of leading energy service companies. The recognition underscores our commitment to excellence and sustainability on a global scale. It is a testament to our hard work and continued commitment to helping clients meet their sustainability goals.

Moving on to slide 5, fiscal 2023 saw continued strength in Install orders, which creates a strong service opportunity over the life of the equipment. As we advance our digital strategy, including more than doubling our connected assets during the fiscal year, we are gathering more intelligence through data. This data allows us to better segment customer needs and create more proactive offerings across all of our domains, effectively utilizing our industry-leading service organization of over 20,000 professionals that make over 5.5 million visits annually.

With our large installed base, improved operations and strong pipeline, we see a long runway of continued growth for our Service business.

Turning to slide 6, our value creation framework remains unchanged. We truly believe we are well positioned to drive continued growth, delivering solutions across sustainable and healthy buildings, while leveraging the increased adoption of OpenBlue to drive margin expansion.

Our pipeline remains strong in our longer-cycle Building Solutions business, as we continue to realize top line growth. Our shorter-cycle businesses in Global Products, primarily global residential HVAC and parts of Fire & Security are stabilizing as the new fiscal year progresses. Converting our strong top line growth into improved margins and cash flow is our top priority. We are beginning to see our gross margins improve as supply chain disruptions continue to lessen.

Within Building Solutions, we are also seeing stronger margins in our record backlog and as Service continues to accelerate, we should see favorable mix as well.

Cash flow is a key area of focus for us. On the receivables front, we are making progress in improving the longer collection cycle, historically associated with our Install business. Inventories in our short-cycle businesses continue to reduce as lead times normalize. And we are adding capacity to meet the strong demand in our Applied HVAC business. As you can see, we are very excited about the opportunity ahead.

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 7. Total sales grew 3% to $6.9 billion, while organic sales increased 2% with another strong quarter from our Service business, which grew 9% organically. The cyber incident was a 1% headwind in the quarter.

Adjusted segment EBITA was flat year over year, with margins declining 50 basis points to 16%. Price/cost was positive, and we delivered strong productivity savings, achieving our $340 million target for the year.

Turning to our EPS bridge on slide 8, adjusted EPS of $1.05 increased 6% year over year and include a $0.04 headwind from the cyber incident. Operations contributed $0.03 of the growth in the quarter, benefiting from positive price/cost and our ongoing SG&A and COGS actions. Below the line, we saw favorability from non-controlling interest and a lower share count.

Let's now discuss our segment results in more detail on slides 9 through 12. Beginning on slide 9, organic sales in our shorter-cycle Global Products business, excluding the 2% headwind from the cyber incident, were flat year over year, with price offsetting a decline in volume. Global Products saw continued strength in Commercial HVAC, which grew high-single digits after growing mid-teens in the comparable period one year ago. Demand remained strong and our leading position in Commercial HVAC was further extended in fiscal 2023.

Fire & Security declined low-single digits as inventory further rebalanced as lead times improved materially year over year. Industrial Refrigeration had another strong quarter, growing over 45%, driven by EMEA/LA. Global Residential declined high-teens, driven by a greater than 30% decline in North America and a high-single digit decline in rest of world. North America faced challenging year-over-year comparisons as we were still working out of a backlog from last fiscal year.

In Europe, the heat pump market overall experienced lower growth than anticipated. As our book-to-bill business begins to normalize with improved lead times, our Global Products third-party backlog decreased 4% from the prior year to $2.5 billion and remained flat sequentially.

Adjusted segment EBITA margins declined 85 basis points against a tough comparison to 21% as continued weakness in Global Residential offset positive price/cost and productivity savings. One of the biggest factor impacting our Global Products margin performance is due to lower absorption costs in Global Residential business.

Moving to slide 11 to discuss our Building Solutions performance. Order momentum remained strong with 9% growth. Service orders grew 7% in the quarter and 11% for the full year as our transformation into a service-led organization gains momentum. Install orders increased 10%, led by double-digit orders in North America and EMEA/LA. Organic sales grew 5%, driven by strong growth in Service of 9%. Install grew 2% organically against a tough comparison. The cyber incident was a 1% headwind in the quarter.

Adjusted segment EBITA increased 5%, while margins declined 10 basis points as the higher mix of equipment installations and weakness in China offset positive price/cost and saving from productivity initiatives. Strong equipment sales are an important contributor to future higher-margin recurring Service revenue. Building Solutions backlog remains at record levels, growing 9% to $12.1 billion. Service backlog increased 12% and Install backlog grew 8% year over year.

Let's discuss the Building Solutions' performance by region on slide 12. Orders in North America increased 8%, with continued strength across our HVAC & Controls platform, up over 20% year-over-year. Overall, there was robust demand in our office, data center, healthcare, government and manufacturing sectors.

Install orders increased 11% year over year with solid growth in new construction. Sales in North America were up 8% organically with broad-based growth across the portfolio. Our Install business grew 9%, with continued momentum in new construction, up 25% year over year.

Organic sales in Service grew 7% in the quarter and 8% for the full year, driven by strong performance across our shorter-turn transactional business, which is the direct result of having a large customer base.

Sales across our HVAC & Controls platform grew high teens year over year, while Fire & Security was flat. Segment margins expanded 70 basis points year over year to 15.4%, driven by ongoing productivity benefits, the continued execution of higher-margin backlog and strength in our higher-margin Service business. Total backlog ended the quarter at $8.3 billion, up 10% year over year.

In EMEA/LA, orders were up 16%, with solid contributions of 16% growth from both Service and Install. Demand in Commercial remained strong, growing 50% year over year, driven by HVAC and security. As the decarbonization efforts in Europe continue to gain momentum, our offerings in Industrial Refrigeration and HVAC & Controls increased orders by over 20% across the industrial sector.

By region, order growth was broad-based. Sales in EMEA/LA grew 3% organically, led by mid-teen growth in Service with double-digit growth from both our recurring contracts and our shorter-cycle transactional business. Applied Commercial HVAC and Fire & Security grew low-single digits within the quarter. Segment EBITA margins declined 160 basis points to 7.8%, driven primarily by execution of lower-margin jobs within the backlog. Backlog was up 10% year over year to $2.3 billion.

In Asia Pacific, orders grew 3%, driven by double-digit growth in Service with healthy growth across our HVAC & Controls platform. Overall, we saw strong demand in the institutional sector growing over 30%.

Sales in Asia Pacific declined 6%, as the Installation business was impacted primarily by weakness in China. Our Service business continued the momentum of double-digit growth, increasing 11% in the quarter and 14% for the full year. Overall, Fire & Security grew mid-single digits, while HVAC & Controls declined high-single digits.

Segment EBITA margins declined 50 basis points to 13.5%, as weakness in China offset ongoing productivity savings and positive price/cost. Backlog of $1.5 billion is flat year over year.

Turning to our balance sheet and cash flow on slide 13, we ended the fourth quarter with approximately $800 million in available cash and net debt declined to 1.9 times, which is lower than our long-term target range of 2 to 2.5 times. As George mentioned, during 2023, we returned $1.6 billion to our shareholders via dividends and share repurchases.

Our free cash flow conversion of 76% was better than our updated guidance. On the working capital front, our receivable collection has extended as our Installation business, critical to generate our Service business, has grown. We are making structural changes such as more upfront payments to improve our cash collection cycle in the Installation business. While inventories remain elevated versus historical levels, primarily due to the challenges in our Global Residential businesses, we saw overall inventories improve five days sequentially in the fourth quarter.

We anticipate further improvement entering fiscal 2024. We have the fundamentals in place to be a 100% cash conversion company over time. However, continued growth investments and some further restructuring in fiscal 2024 will be headwinds in the fiscal year.

Now, let's discuss our first quarter and fiscal 2024 guidance on slide 14. We're entering fiscal year 2024 with a backlog at historical levels, strong momentum in our industry-leading Service business and broad-based demand across end markets. We're introducing first quarter sales guidance of approximately flat year over year as we return to normalized seasonality. Our forecast includes a roughly 1% headwind from the cyber incident, as well as continued weakness anticipated in China. We expect Building Solutions momentum to continue, led by our resilient Service business.

Global Products faces a tough year-over-year comparison as we were working through elevated backlogs in the comparable quarter last year, especially in Residential HVAC and certain Fire & Security indirect channels.

For the first quarter, we expect segment EBITA margin to be approximately 13% and adjusted EPS to be in the range of $0.48 to $0.50. We're expecting a slower start of the year as we return to more normalized seasonality, include the negative impact from the cyber incident and anticipate continued weakness in China.

For the full year, we anticipate Global Products to stabilize in the second half of 2024, as backlog continues to normalize and Building Solutions converts its higher-margin backlog. We expect organic sales to grow approximately mid-single digits with Building Solutions leading the growth, particularly in Service.

Segment EBITA margins are expected to expand approximately 25 basis points or greater as price/cost remains positive and mix improve throughout the year. Adjusted EPS should be in the range of approximately $3.65 to $3.80, representing growth of 4% to 9% year over year.

For the first quarter, we anticipate our normal seasonal cash usage with incremental impact from the cyber incident. We expect free cash flow conversion to be 85% for the full year.

Our results and guidance reflect great progress advancing our service strategy enabled by digital, momentum in our commercial products offering and we enter fiscal 2024 with strong order momentum and record backlog in our longer-cycle Building Solutions business.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And today's first question comes from Jeff Sprague with Vertical Research. Please go ahead.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Hey. Thank you. Good morning, everyone. Maybe we could just touch on cash flow a bit more. A, how much kind of recovery from the cyber incident do you kind of expect embedded in this 85% in 2024? And then also just it seems peculiar, Olivier, your net financial charges are going up to $420 million per your guide versus $280 million last year. Is there something going on in the factoring or something else in kind of the capital structure that would explain that sort of delta year over year?

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

A

Thank you for your question, Jeff. Regarding the free cash flow, we had an impact in the first quarter, which we believe will be about $200 million. If you look at the guide for 2024 at 85%, that includes two elements: one, some restructuring and also some investments in CapEx to support the strong demand in our Applied business, George mentioned that in his opening remarks. If you look at the levers of improvement for free cash flow, we see, one, inventory reducing as we reduce our inventory in resi. Two, in receivables, we believe we're going to be able to demand more upfront payments as our lead time have improved, and also we have implemented our supplier financing program across the network, and that will help further improve DPO.

To go back to your net financing charge, it's the byproduct of higher interest rate. We are going to refinance some debt. We have some commercial papers as well, which are going to be priced at the current higher interest rate. Factoring is a small proportion of the cost.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And then separately, could you just address – I mean, orders obviously looked pretty solid in the quarter. Was there any impact from the cyber and the ability to kind of book orders, either as you ended the September quarter or as you've entered this particular quarter? Maybe just give us a little bit more color on what the challenges were in the business as you work your way through this.

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

A

Yeah. So, when we look at our orders, Jeff, obviously, they continue very strong. And I think we're seeing strong growth in office, data centers, healthcare, state and local government, education. We do see manufacturing, industrial bookings continue at an elevated level after a strong growth in construction starts. It is focused on the EV and semiconductor manufacturing.

And then when we look at our pipeline, it's very strong. And a lot of that pipeline is focused on these key verticals. I would say from a booking standpoint, we were tracking prior to the cyber incident, a little bit better. And then with the outage, I think we're somewhat slowed a bit in that last week. But I think as we look at first quarter and for the year with the pipeline that we have, we're going to see continued strong order growth.

And I think when you look at our – mainly around Commercial HVAC trends, it's clear that we're gaining share pretty much across all of the industries. That's creating significant equipment sales into our Building Solutions business, which is creating a really nice installed base that we're now capitalizing on the service opportunity.

In Building Solutions, our Applied orders were up about 20%. And then in the ducting space, when you take out resi, our commercial ducted was up over 50%. So, our portfolio of Commercial HVAC is playing out strong. And that ultimately is what's driving the installed base within our commercial – within the Commercial Building Solutions business.

Operator: Thank you. And our next question today comes from Joe Ritchie at Goldman Sachs. Please go ahead.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, everyone.

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

A

Morning.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Can we start on just the mix impact this quarter. I was a little surprised to see the Business Solutions business see $100 million impact from mix. And also because it seems like your Service business has farly exceeded growth versus Install this quarter. So, what exactly is going on within Business Solutions that's driving negative mix? And is that expected to reverse in 2024?

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

A

So, if you look at the equipment sales today, particularly in the high end of our market, we are gaining share. This is a strong part of the market. This business is very attractive for us because for $1 of hardware, we typically generate, over the life cycle of the equipment, another $9 of solutions, including $4 of services. And you saw also, Joe, in services today, we clearly have momentum. Services is growing fast, enabled by digital. And as a reminder, services is twice the profit of the average of the company. So, this mix is based upon equipment sales, which would generate attractive profit with the service and UTM solution annuity.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Got it. Understood. And, I guess, maybe my one follow-on question then would be on 1Q. And so, look, it's December 12, we're clearly well into the quarter. You've given a fairly narrow range for the first quarter. I guess, I'm just trying to understand two things. Number one, confidence that that will be a range when you report results? And then secondly, just any help that you can give on the bridge? Because even if you adjust for the insurance settlement from last year, it seems like a relatively large decline in the first quarter despite flat organic sales expected this year.

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

A

So, if you look at Q1, we see a strong order momentum continuing. If you look at, of course, the covenants, we have now a few days to go before the end of the quarter. So, that by itself answer to the question. If you look at what is happening in Q1, we have strong momentum in our Building Solution business. Service solution powered by digital is growing fast. We see weaknesses in our Global Products division, particularly as it comes from resi. We have some impact also in China. Also, we have the impact of cyber, which is about 1% of the top line, and it's difficult to dimensionalize exactly about $0.02 of EPS. And last but not least, GP now is going through a more normalized seasonality after a few years of supply chain impact.

Operator: Thank you. And our next question today comes from Scott Davis at Melius Research. Please go ahead.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Hey, good morning, guys.

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

A

Good morning.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Can you guy's give us – kind of help us understand the materiality of data centers. It seems, obviously, really bullish commentary we've heard from many folks, and don't always think about JCI in the data center business, but certainly, you guys have a meaningful presence. So, can you help size that for us?

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

A

Yeah, Scott, let me take that one. When you look at – as we look at data centers, we've been obviously, reinvesting in all of our Applied product to have the full portfolio to be able to capitalize on what we see to be incredible growth here over the decade. And so, when you look at a typical data centers, let's take a 100-megawatt data center, that requires roughly about 30,000 tons of cooling. And that can be served. Right now, the big trend is air-cooled chillers. We're the leader in the space with the investments that we've made and being able to deliver on those capabilities. And that's where we're seeing significant growth in serving that set of customers. And so, it can either be air cooled or water cooled. Of course, water cooled, we're in a strong position. So, roughly about 30,000 tons of cooling.

So, when you look at the market in 2024, we're projecting somewhere 15 to 20 gigawatts, which will amount to about 5 tons of cooling needs. Now, because of our position with our strong portfolio of the full technology to serve these, we believe we're positioned to get, let's say, half of that volume going forward, which – the overall volume would be greater than $2 billion. And so, for us, this has been a position of incredible strength.

A lot of that is because of our multigenerational developments we've made at our engineering center. Just a comment on that, we've – just in the last 90 days, we've had customers representing over 20% of the US GDP at our technology center because as we're laying out long-term plans with our customers, we're making sure we're positioned with the applications that ultimately achieve their needs. And so, it is a very attractive space for us, Scott. And then from a service standpoint, once we get that unit installed, we're getting very strong service growth on top of that, which will then be over the lifecycle of that installation.

Scott Reed Davis
Analyst, Melius Research LLC

Q

It's helpful, George. And when you think about putting servicing and AI kind of heat-intensive data center, is that higher margin – A, is it higher margin? But B, is it higher margin – if it is, is it higher margin because of the complexity or because of just the scale that you're just getting so much more content into that facility?

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

A

Yeah, I think it's both. I mean the criticality of the applications that we provide and then the ability to be able to operate within those conditions and then from a data standpoint, making sure that we're secure relative to what we do and how we manage the data that ultimately delivers the outcomes that we can deliver. Certainly, the work that we've done around OpenBlue and the cloud-based technology there, none of that was absolutely – was not interrupted at all with our cyber incident. So, a lot of that is, we believe it's high-margin service opportunity not only at the equipment level, but then with the use of all of the data to enhance how that equipment is actually operated in their environment.

Operator: Thank you. And our next question today comes from Steve Tusa with JPMorgan. Please go ahead.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning.

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

A

Morning, Steve.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Can you just provide a little bit more detail around the impact from the cyber attack? I mean, I think you said $0.04 in the fourth quarter, but it was kind of late in the fourth quarter. And then in particular, which businesses it impacted, just kind of the mechanics of the thing?

And then just clarify what you're saying in the first quarter. I think you said $200 million in cash, but then $0.02 of earnings, I might have missed. I'm not sure I can reconcile like all those numbers. So, maybe just a little more mechanical detail on the impact of the cyber attack?

Olivier Leonetti A

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

Let me give you some of the numbers. In Q4, we believe that the impact on the top line was about 1%. It would be the same in Q1. What you have going on, Steve, I would go through the EPS impact in a second, is what you lose in Q4, you recover some of it in Q1, right? That's why you have those numbers going on. So, 1% in revenue in Q4 and in Q1. The EPS impact in Q4 is about $0.04 and the impact in Q1 about $0.02.

What is mainly impacted is everything which is short cycle. If you need to satisfy demand for something that you need to have in inventory, if you don't have it, you lose it. That's where the impact will be.

My $200 million impact in cash is lower collection in the first quarter because we're not able to bill immediately, as we could not bill immediately then that has delayed collection. That's the $200 million, Steve.

George R. Oliver A

Chairman & Chief Executive Officer, Johnson Controls International Plc

Steve, just...

C. Stephen Tusa Q

Analyst, JPMorgan Securities LLC

Okay.

George R. Oliver A

Chairman & Chief Executive Officer, Johnson Controls International Plc

Just when you look at the overall event, it did create significant distraction internally. We – it wasn't one or two days. It actually was about three weeks, which was the better part of October. So, while we're able to quantify some of the impact, I think it's harder to put a number to the overall impact in October.

As you – as we – although we maintained operations, we weren't necessarily operating at full efficiency. But I would tell you the way that our teams have responded and actually got back to operations has been remarkable. And so, I do believe, just from an overall momentum standpoint, we lost a little bit of momentum in October. But I can tell you, in November and December, we gained that back.

C. Stephen Tusa Q

Analyst, JPMorgan Securities LLC

Okay.

Olivier Leonetti A

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

Steve, a final sort of detail. We have substantial insurance coverage and the large proportion of our cost, including business disruption, will be covered by insurance.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. And so, I guess, I'm just struggling to see how you get from like $0.50 in the first quarter, which seems like an operating base to I don't know, $3.75 for the year. That just seems like a pretty steep hill. And I mean, are you – I know you're probably assuming that the comps maybe get a little bit easier in some of the products businesses. But I mean, are you assuming like recovery, true kind of economic underlying recovery in some of those short-cycle businesses for the back half of the year?

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

A

So, what we see happening is earning growth to return during Q2. What we see today is momentum in our Building Solution business. We talked about that at length, equipment, services, enabled by digital are resonating with our customers.

We see GP stabilizing in Q2 and more normalized growth in the second half for our Global Product division. If you look at the theme for the year, Commercial strength, Service strength, with Service expected to grow high-single digits plus in the year.

Operator: Thank you. And our next question today comes from Julian Mitchell with Barclays. Please go ahead.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Hi, good morning. I just wanted to understand some of the free cash flow moving parts again, maybe as we talk just dollars year on year is the easiest thing for 2024. So, I think you're guiding about $100 million of net income growth, about $300 million of free cash flow growth in 2024.

So, just trying to understand that extra kind of $200 million in the free cash. How much of that is sort of CapEx maybe coming down or working capital coming down substantially? I'm just trying to understand as well what's the full year impact of cyber in the free cash year on year? And if there's anything to be aware of on factoring? I know you mentioned supply chain finance. Thank you.

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

A

So, if you look at the key driver of free cash flow, they're going to be around working capital, mainly in inventory. If you look at our level of inventory, we are at about – we are going to close the year at about 54 days of inventory. We used to be, before those supply chain events, at about 45. A day of inventory is worth about quite a lot in term of free cash flow. So, inventory is going to be a key variable.

Receivables also would be [ph] unchecked (00:39:43) to declining as we are improving the way we manage that particular balance sheet line. Some of that will include upfront payments. As our cycle has been improving to satisfy demand, we're able to demand for acceleration of products. We're able to demand more upfront payment. And the final one would be supply chain financing, which we are now deploying across the world. Factoring would be flat year on year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Thanks, Olivier. And the cyber of $200 million free cash headwind in Q1, is that like a headwind of $200 million for the year as a whole or are you assuming you recapture most of that in cash flow in the balance of the year?

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

A

It would be timing related. We'll catch that up in the second quarter.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Okay. And then my follow-up question will just be on the pace of the EPS recovery through the year. Historically, I think Q2 is about 19% or so of full year earnings. Is that roughly what we should expect for 2024 in terms of the seasonality?

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

A

We are going to go through a more normalized seasonality in term of EPS performance as now the supply chain is going back to what we had pre-COVID. If you look at the themes for EPS earning growth expected in Q2, momentum in Building Solutions I've indicated, GP stabilizing in Q2, and then going to an increase in profit contribution in the second half. Those would be the theme for the flow of EPS across the year.

Operator: Thank you. And our next question today comes from Nigel Coe with Wolfe Research. Please go ahead.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone.

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.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Good morning. I know we've danced around this a fair amount here. But on the 1Q guide, Olivier, I really struggle to get down to that range, down and flat sales and the 13% segment EBITA margin. So, is there anything below the line from corporate timing, the interest or anything below the line you need to think about there? Just any help there would be helpful.

And then on the free cash flow, the restructuring, I'm not sure if you did quantify that to Julian's question, but what sort of payback are we seeing on this restructuring action? Where should we dial in for structural cost savings in 2024?

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

A

So, if you look, let me start with the end. On free cash flow, we're going to have an impact of about 10 points of conversion to two elements. One is higher CapEx actually due to the demand we have, mainly in the data center. That's about 3 points of conversion. And restructuring, we expect to have 7 points of conversion due to restructuring. The impact – the payback of those restructuring actions is about a year or below that. And we have actually quite a few projects to improve the profitability of our enterprise.

On Q1, I go back to what I indicated earlier in the Q&A session, momentum in Building Solutions, that's what we see in Q1; weakness in Global Product due to the resi demand; some more normalized comp as the supply chain is normalizing for our Global Product division and then of course, the impact of cyber.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. And just on the CapEx, it just seems like it's about $60 million increase. So, just wanted to just clarify that. But maybe you can talk – can we just dig into the EMEA/LA segment? The margins there have been struggling for so long now. And we've got installation growth in orders and backlog, but installation is down 5% this quarter. So, I'm just wondering if you could just maybe just talk about what the problems are in that region and what some of the fixes are.

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

A

So, we see no structural reasons for the EMEA/LA margin to be double digits. And we expect margin to turn positive in Q2. Clearly, we have work to do in the region. The margin profile of the region is mainly due to the realization of lower-margin orders into the revenue. We see that turning the other way, so turning positive in Q2, Nigel.

Operator: Thank you. And our next question today comes from Andy Kaplowitz with Citigroup. Please go ahead.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, everyone.

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

A

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

So, your orders accelerated slightly actually in Q4 to up 9%, I think, for Building Solutions led by North America. And I know you talked about the strength already in Applied and in markets such as data centers. But as you know, some leading indicators in non-res have been a little weaker. So, do you see order growth holding up here across your businesses throughout FY 2024? And do you see your backlog staying around that $12.1 billion number for your long-cycle businesses in 2024? I think any incremental color would be helpful.

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

A

Yes, I do, Andy. And when we look at – we've got a pretty robust tracking across all of the critical markets across the regions, and we're tracking not only lead generation to conversion to where we're positioning to deploy our resources and differentiate and ultimately win. So, the pipeline generation has continued to be very strong and it's in line with what I previously discussed as far as the segments that are driving that. And I think as we look at our Service business, so that's on the – as – when you think about new projects and new opportunities to build install. So that has been very strong.

And what we're also seeing is that on the Service side, with the work that we've been doing with not only going back into the installed base, getting connectivity, getting use of the data and then bringing forward new value propositions, we're seeing significant pick-up in our PSAs and being able to get longer-term contracts and build the base there.

So, in spite of – when you look – when you segment our Building Solutions, whether it be Install, still strong, and then our ability to be able to, even in an economic decline, we should – with the value proposition that we're bringing to our customers within Service, I believe that that's going to continue to hold up. And so, right now, there's no – even though we look at the same metrics you look at, Dodge starts and ABI and all of the key metrics being a little bit weaker, at the end of the day, with the way that we prioritized our growth and how we're deploying our resources, we're positioned to capitalize on where the growth will occur.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

That's very helpful. And then maybe you could give us just a little more color on your expectations for Global Products. Do you see global residential markets, for instance, turning positive in the second half? And as the greater segment turns, how are you thinking about the European heat pump market? I think you mentioned GP stabilizing overall in the second half, but maybe you can talk about your confidence level that destocking ends in the second quarter, as you guys mentioned.

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

A

So, let's start with resi. As we look at the US resi market, obviously, there was challenges that set up for resi in 2023, both in units as well as overall sales with the recession. I think when we look at the reason for that, it's higher-cost equipment, it's weaker consumer spending. It's now people going back to work and reducing their home improvement spending. So, a lot of contributors to that.

I do believe that as we look at the transition here with the refrigerant changes, we get into more stabilization, where although there will be less units, certainly with the new refrigerant launches, that's going to demand more price because of the refrigerant. And so, on a sales basis, I think we're extremely well positioned now to be able to deliver our portfolio of refrigerant changes in time for the implementation on January 1.

We have pulled ahead our new product introductions by as much as two or three months to ensure that we're giving our distributors enough time to rebalance their inventory and ultimately restock with the new R-454B refrigerant products. And again, we're working with all of our constituents right from the suppliers to our distributors to partners to make sure we have a smooth transition. So, we do believe it normalizes and somewhat stabilizes going forward. And that's on the resi in North America.

When you – your question around heat pumps, I think we believe across our portfolio that that creates an incredible opportunity for us. We believe it's about a $100 billion market that's grown mid-single digits. And today, we assessed our portfolio, it's – about a third of our sales within HVAC are heat pumps. And I do believe, although we've seen a pullback in Europe, and it's mainly around our JCH product that we were planning for a pretty significant pick-up here, 2023, which ultimately didn't materialize that – maybe that's just kind of pushed to the right a bit as some of the countries in Europe have pushed forward the implementation date and the like. And then as a result, I think consumers have pulled back and not ultimately capitalizing on the efficiency that the heat pumps represent to them. And so, we're watching that closely. But I do believe that over the next maybe 18, 24 months, that will come back and come back pretty strong.

And then on the commercial side, pretty much globally, we do have a leading portfolio. We're understanding now with the focus on decarbonization and sustainability that we are uniquely positioned with low-GWP refrigerants across our portfolio. And we're positioned to now capitalize on that being a significant strength as we're capitalizing on some of the key markets globally. So, that's kind of an assessment as I think about where we are with heat pumps.

Operator: Thank you. And our next question today comes from Noah Kaye with Oppenheimer. Please go ahead.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Good morning. Thanks for taking the questions. And it's really actually building on one of Nigel's earlier ones around restructuring and more broadly, productivity gains. You've got the $340 million of productivity savings for 2023. Is it time for kind of an updated medium-term target around productivity? And what do you see as the path forward to drive a stronger margin profile for the business? And how much does productivity play into that?

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

So, we believe, Noah, that fundamentally we have the ability to be a 30% incremental company. We will achieve improvement in margin through two levers: one, gross margin, as we improve our mix as we improve our operations; and the second lever is going to be through OpEx as we keep standardizing and centralizing our operations. And we have, as we see a strong portfolio of ideas and projects to improve the profitability of our enterprise. As I indicated earlier, typically, those projects have below one year payback. We don't think we need to update today our productivity programs. I think you will see that being embedded in the guide, Noah.

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

And then, Noah, just to comment on that, as we have been able to strengthen our operating system globally, it [ph] hasn't (00:51:56) identified significant opportunities continuing, so that we can capitalize on and ultimately continue to expand margins going forward to be able to get incrementals 30% plus. And so, the payback that we're getting on the work that we're doing is within a year.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Yeah. Appreciate it. Maybe a little bit surprised positively, I would say, that the cyber incident didn't more significantly impact the Service business. One, can you kind of explain why that was the case? And two, just talk about how the Service and Install operations performed during this challenging period for IT infrastructure for the company?

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

A

Noah, let me just comment on the cyber incident as a whole. What we learned is we're not alone, and this is more common phenomenon across companies like ours. Certainly it was unfortunate. But what I would tell you there was incredible, remarkable work by our team with our business continuity plans. And so, as we were impacted, our teams really responded well, staying focused on customers, continuing to work and maintain operations with incredible speed and focus.

And so, with that, we were obviously very proactive in how we've communicated with suppliers, customers, employees to maintain our operations. So, that is the foundation of what we were able to accomplish. What I would say is that the agility that we saw and the ability to be able to – where we were – where we did have some compromise, be able to get the proper set of data and make sure that we're continuing to serve across the board. We're able to maintain that and stay focused on what matters, which is ultimately delivering for our customers.

So, even though we had a little bit of disruption in the month of October, which we talked a little bit about earlier, I believe that the work that we've done really has positioned us strong going forward, and we've seen that momentum come back in November and December.

Operator: Thank you. And our next question today comes from Joe O'Dea with Wells Fargo. Please go ahead.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

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

A

Good morning.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

First question, just wanted to ask on channel inventory trends. I think that first emerged as a headwind in the third quarter. I believe you expected to see a more meaningful headwind in the fourth quarter. And so, can you size kind of what you believe you saw in the fourth quarter? And then within the guide, what type of headwind would be embedded in sort of first quarter or even second quarter of 2024?

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

A

When you look at our Global Product book-to-bill businesses that really depend on channel, starting with resi, certainly, we saw a pullback in resi. And that was obviously more so in the US versus globally, but overall, there was a decline within resi. So, we've been working to offset – obviously offset the inventory and get positioned for what we believe the new demand to be. And I think as you look at the book-to-bill, it's getting more normalized relative to on a go-forward basis that we've seen the adjustment. When we look – when we track our inventories, so I think we're back to where we were historically relative to what's in the channel with our distributors. And so, I'm somewhat optimistic that that's stabilizing going forward.

When you look at the rest of our book-to-bill businesses, and it's mainly around Fire & Security controls, the same hold true there. So, we think that we're through most of the headwind with the adjustment of inventory in the channel. We've also adjusted our inventory in line with what we believe the forward-looking demand to be. And so, it's important that we're positioned to be able to support that demand on a real-time basis, which we are.

And as we go through reviews business-by-business, looking at what is actually happening, we are encouraged that now we're seeing orders across the board starting to build back our backlog so that we can be positioned here through the course of 2024 to continue to build on the revenue base on a go-forward basis. So, I mean we're somewhat optimistic, and I feel that we've – the headwind that we saw in the second, third, fourth quarter, some of that's now is normalizing, and we're back to seeing growth.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

And then just wanted to understand kind of project activity in the market. I think 2023 would have seen still a lot of constraints as it relates to labor availability for projects, supply chain availability. What you're seeing on that front, kind of the smoothness of operating of projects at this point whether labor still remains a constraint? And then just related, I mean, office strength does come across as a bit of a surprise. And so, any additional color on kind of what you're seeing in North America office? Anything that you're doing where you think you might be driving share gains there?

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

A

Yeah. I'll talk a little bit about operations. When you look at our Building Solutions across the globe, certainly, there was significant disruption, where, from a cycle time standpoint, some of our projects got extended a month or two. As we look at where we are today, we're back to almost where we were. And what we're believing now is our operational, our – the operating system that we've deployed, we can create now cycle time as a competitive advantage and being able to respond with the improvements that we've made within our supply chain and within our factories and ultimately within the field and how we execute on projects. So, I'm very confident now that that's going to be a critical strength of ours.

Your question relative to resources, we have been very attractive in being able to recruit labor, pretty much across the globe and have not been constrained by labor across both our project-based business as well as our Service business. And then in our critical factories, we've been able to recruit, retain and develop, the talent is ultimately going to be critical to delivering on our capabilities. So, that feels very good.

As it relates to commercial buildings, even though there's a thought that maybe buildings is going to be a pullback, the work that we're doing within buildings is differentiating. And so, as we go into a building now, especially with the focus on energy savings and decarbonization, there's no company that's consuming as much data as we are within the building. And so, because of that, we can actually do upgrades and deploy new technologies and utilize our data platform, consume all of the data within the building, and in many cases, get a payback on what we do within the building. And so, that is our focus. And now with building standards being implemented in many jurisdictions, not only here in North America but across the globe, we believe that that really presents a big opportunity for us in that space, especially with the focus on energy and decarbonization.

Operator: Thank you. And our next question today comes from Deane Dray with RBC Capital Markets. Please go ahead.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone. Just wanted to follow up on the potential timing of the insurance recovery, the business interruption insurance. Would that be a fiscal 2024 event? And is that embedded in your guidance?

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

A

The timing would be a 2024 event. Some elements of our cost will actually be reimbursed, we believe, in Q1. That's the goal. So, we depend when the costs are incurred and when we are able to prepare our claims. So, some of it will come in Q1, certainly, Deane, in this year.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Okay. Well, that's – if you get that in the first quarter, that's pretty fast. So, that's impressive.

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

A

Some of the...

Deane Dray
Analyst, RBC Capital Markets LLC

Q

And then...

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

A

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

...just a second question on China. Just – it was called out several times as being a source of weakness, especially in Building Solutions. Any color there just in terms of, at the margin, what might be changing?

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

A

Yeah. So, as they went through different phases of COVID, we saw a pick-up last year and capitalized on that opportunity. We believe that we built a leading position in the higher end of the commercial market there and have a very large installed base that we're capitalizing on to be able to build our Service business.

We are concerned that the macro environment has continued to deteriorate, leading to concerns of the overall slowdown now accelerating. I think when we look at these macro trends, not only working against us, but our competitors. And as we have now studied the markets and looking at verticals or looking at the overall region, we are planning prudently for continued pressure in China. So, we're hope we're a bit wrong and maybe it comes back a little bit stronger than we suspect right now, but that's really what's embedded in our guide.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you.

Operator: And our next question today comes from Andrew Obin with Bank of America. Please go ahead.

Andrew Obin
Analyst, BofA Securities, Inc.

Q

Thanks, guys. Good morning.

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

A

Morning, Andrew.

Andrew Obin
Analyst, BofA Securities, Inc.

Q

Hi. Can I just think it seems that JCI is facing, as we look, more growth, more investment, more inflation, so more CapEx, more working capital. So, how do we think about this 100% cash conversion target going forward that we are in a more growthy and more inflationary environment, right? How do you balance growth and growth opportunities and investment versus cash conversion?

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

A

So, if you look at what we said in our prepared remarks, we believe that the fundamentals to allow our company to be a 100% free cash flow company over time are there.

Today, to your point, we are investing in some parts of the business to support the strong growth in high-end HVAC. We believe that the level of CapEx at this level will be what we need to support the growth we see in the coming few years.

The big levers of improvement in free cash flow are going to be around working capital. I mentioned inventory, just a day of inventory is worth about $50 million of cash. And if you look at where we are at the end of FY 2023 at about 54 days of inventory, we used to be at 45 days of inventory, you can do the math.

There was a big level of cash flow trapped in inventory, we are at it, inventory are declining, as we put in our prepared remarks. So, we see also the ability to reduce the collection cycle. As our lead times are improving, we're going to be able to collect faster. And we are now, because of the value proposition of our offering, we're able also to demand some prepayments. So, some – so those are the levers. I mentioned supply chain financing as well. So, that's basically, Andrew, what is explaining the view on free cash flow and the path to be, over time, a 100% free cash flow conversion company.

Andrew Obin
Analyst, BofA Securities, Inc.

Q

Got you. And I – just clarify if I got it wrong. I think you had $220 million in impairments and restructuring charges. Were there incremental impairments in that number? And if yes, what were they?

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

A

Go again. We had impairment charges, correct. Go again on the second part of your question?

Andrew Obin
Analyst, BofA Securities, Inc.

Q

What assets do we impair?

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

A

So, we had, first of all, some OpenBlue assets associated with the FM:System (sic) [FM:Systems] acquisition. Some of those assets are part of the FM portfolio. They are better. So, we're going to discontinue what we have in OpenBlue. We had an impairment associated with a business we have in Argentina. This business is impacted by high hyperinflation and also we had some restructuring charges. Those are the three key levers.

Operator: Thank you. And our next question today comes from Brett Linzey with Mizuho Americas. Please go ahead.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey, good morning. Thanks. Just want to come back to price/cost. You said positive for 2024. Could you just discuss the pricing component within that framework? And how are you thinking about incremental price actions this year? I'm just curious, did the cyber disruptions in any way limit your ability to capture price ask? Any color there?

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

A

So, on price/cost today, we see price/cost to be positive. We believe we're going to be able to keep the level of pricing we saw in the second half of the year.

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

A

And when you project the full year, we see – still see strong – with the value propositions that we're bringing to our customers in Building Solutions, strong value propositions that we're pricing to and with the differentiation that we bring with our digital content, that really drives margin.

And then on the product side, we continue to have record launches of new product introductions, which ultimately we price to the value that we bring to the market. So, we're still seeing strong pricing across the portfolio.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Okay. Great. Thanks for that. And then just a quick follow-up on the capacity expansion. Encouraging to hear. I guess, maybe just a little bit more context, is it just simply targeted on data center? Are there other geographies? And is there any way to size what that investment was?

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

A

Yeah. It's – I mean, let's – there is a big segment here that's targeted on data centers because of the position that we have and the strength that we have earned with the products that we're bringing into that segment. So, as I talked with Scott earlier, we see a significant demand here over the next multiple years that we're positioned now to capitalize on in line with the customer relationships that we have. And so, that's going to continue.

But when you look at Applied, when you look at our overall Commercial HVAC business, when we – what's happened is across the board with the secular trends around decarbonization, sustainability, efficiency, we are uniquely positioned with our technology in the way that we develop technology. We engineer and design right from the compressor to the end market, making sure that our equipment is optimized for the application that we provide. As a result of that, that has a broad base, positioned us to be able to now capitalize on these secular trends broad-based, not just within data centers, but across many of the other verticals. And so, as we think about the work that we've done to reinvest over the last three or four years in the position that we have, we have a very strong position across our Applied portfolio that I believe beyond well above the economic growth that we're going to now be able to capitalize on because of that increased demand. So, it's pretty broad-based.

Operator: Thank you. And this concludes our question-and-answer session. I'd like to turn the conference back over to George Oliver for any closing remarks.

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

Yeah. Thank you all for your continued interest and support in Johnson Controls. As we stand here today, we are set up for success through our strong foundation as we continue to build on opportunities to enhance our business from our margin profile, free cash flow generation and growth through the digitization of our service offering. It is all about execution. And as we look ahead, I am confident in our global team's ability to deliver value and results for our customers and shareholders as we enter fiscal year 2024.

So, with that, operator, that concludes our call today.

Operator: Thank you. This concludes today's conference call, and we thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.