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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Johnson Controls First Quarter 2025 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 this event is being recorded.

I'd 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' Fiscal First Quarter 2025 results. The press release and 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, Marc Vandiepenbeeck.

Before we begin, let me remind you that during our presentation today, we will make forward-looking statements. Actual results may differ materially from those indicated by forward-looking statements due to a variety of risks and uncertainties. Please refer to our SEC filings for a detailed discussion of these risks and uncertainties in addition to the inherent limitations of such forward-looking statements.

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. I'd like to start by taking a moment to thank all Johnson Controls' employees for their hard work and tremendous contributions in helping us achieve an excellent start to the year with our strong quarterly results.

Before we get into the details on results, I want to briefly address the CEO transition we announced today. As you've likely seen, the board and I have selected Joakim Weidemanis to succeed me as CEO of Johnson Controls in March. I will remain on the board through August 1 to support a seamless transition and will remain an advisor to the company until I officially retire at the end of December. It has been the honor of my career to lead Johnson Controls for eight years, working alongside an incredible team and to have been a part of the JCI/Tyco merger before that.

We have accomplished a tremendous amount during that time, and I could not be more pleased with the company we have built. Together, we have successfully simplified our portfolio and positioned our company as a

leading pure-play building solutions provider. We are driving results based on our unique value proposition, with an ability to serve our customers over the lifecycle of the building.

The company's future lies in building on the momentum we have underway. Our company has an incredibly strong bench, including our talented CFO, Marc. This transition came together after a rigorous and thoughtful succession planning process, and I am confident they – as you get to know Joachim, you will agree that the company is in very capable hands and he is the right leader for Johnson Controls.

Joakim comes from Danaher where he worked for 13 years. He is a highly accomplished executive with extensive experience scaling global companies with a foundation of customer orientation, innovation and efficiency. His track record of leading service-oriented businesses and leveraging technology to deliver best-in-class financial performance is uniquely suited for where Johnson Controls is in its value creation journey. I will remain fully engaged until Joachim steps into the CEO role, then I will work with him and the rest of the management team as we seamlessly transition leadership and set Johnson Controls up for continued success.

With that, I will turn to a more in-depth discussion of our first quarter performance. Let's begin with slide 4. Johnson Controls is starting 2025 with great momentum and a clear focus, as validated by our first quarter results. Importantly, each of our businesses contributed to robust revenue growth and significant margin expansion and remain positioned for our ongoing shareholder value creation.

These results reinforce the considerable progress we have made through our transformation efforts and demonstrate the success of our strategic initiatives, which have driven increased demand for our core systems and service offerings. We are confident that our performance provides a solid foundation as we move through the year.

Order momentum remained solid with 16% growth in the quarter, driven by double-digit growth in both systems and service. The sustained demand for our tailored engineered solutions offerings has not only fueled growth but also positions us well for continued success. Our focus on driving operational excellence and fostering innovation is enabling our performance and building on our capability to deliver consistent, predictable results.

Taking into account our strong performance to date, we are raising our guidance for the year. Marc will provide more details later in the call. We are confident in our ability to maintain our momentum and deliver long-term shareholder value creation.

Please turn to the next slide. Johnson Controls is experiencing consistent progress across key verticals, demonstrating the breadth of our expertise and stability of our business model. Our global presence across multiple domains with a simplified operating model enables us to assist and grow our customer relationships over course of the entire building lifecycle, while also delivering safe, healthy and sustainable solutions.

By focusing on the entire lifecycle, we create great customer intimacy, while achieving a high level of customer retention, a key metric and differentiator. Our services business, supported by long contractual engagements, empowers us to optimize performance at every phase across all building systems, driving increased value for our customers. This is largely achieved through our global branch network and its more than 20,000 qualified technicians, but also through the continuous advancements in innovation and strategic use of AI.

We leverage remote monitoring by employing AI to drive utilization and efficiency. For instance, proactive repair recommendations are contributing to a larger share of our overall services growth. Additionally, customer surveys

indicate that Johnson Controls' technicians are regarded as trusted advisors, which is due in large part to our local market strategy.

Our product agnostic central operations infrastructure supports our technicians with monitoring, call intake, dispatch and technical support to ensure a seamless and efficient process. This provides best-in-class turnaround time and improved system uptime.

We continue to build momentum as a leading solutions provider to data centers, which is one of our fastest growing verticals and remains an attractive opportunity. I am pleased to report that Johnson Controls was recently named the number one implementer among data center thermal management providers and was recognized as a top innovator. We are one of only two players to be named an overall leader in the field and are proud to be a key partner in supporting the infrastructure of the digital economy.

We are capitalizing on the significant transformation underway to support safer and more efficient manufacturing, reshoring initiatives in Industry 4.0. This is illustrated by how we are driving mission-critical solutions in the healthcare vertical.

Hospitals and healthcare facilities face growing challenges, including aging infrastructure and the need to meet ambitious sustainability targets. Our comprehensive portfolio, including advanced HVAC systems, fire protection and our OpenBlue platform helps healthcare providers enhance air quality, improve infection control and reduce energy cost while meeting regulatory requirements.

OpenBlue is another area where we have expanded upon our generative AI capabilities. Our software can now easily explain building equipment faults and trends using generative AI, and help users with easy to understand investigation and resolution steps. Additionally, we can now analyze energy and carbon emissions across their real estate portfolio and evaluate compliance against any local regulations related to excess carbon emissions, helping customers better plan and prioritize capital improvement projects and facility improvement measures.

Pharmaceutical manufacturing is also a dynamic area where demand for advanced production environments, including clean rooms, has surged to support the production of innovative therapies and medications. These facilities require precise temperature, humidity and air quality management. Our leading solutions ensure that they can operate efficiently, safely and sustainably.

Across the broader manufacturing sector, our ability to integrate smart, energy efficient and resilient technologies helps manufacturers optimize their operations and achieve their long-term goals. Our performance in these verticals and our use of AI demonstrate our ability to address the unique needs of mission-critical environments across a range of industries. By leveraging our advanced technology, digital innovation and focus on sustainability, we continue to deliver measurable value for our customers to position ourselves as a leader and driving long-term growth.

In summary, our strong start to fiscal 2025 reflects the success of our strategy to simplify our portfolio and position Johnson Controls as a leading pure-play building solutions provider. The significant progress in our transformation is enabling us to achieve more consistent and predictable performance as we continue to deliver value for our stakeholders.

With that, I'll turn it over to Marc.

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEA, Johnson Controls International Plc*

Thanks, George. Before I review our results, I would like to thank you for your leadership of Johnson Controls. I've deeply appreciated your partnership over the years and want to wish you all the best in your well-deserved retirement. I look forward to working with you and Joakim over the coming months to ensure a seamless transition.

Please turn to slide 6. Our long-cycle backlog and unwavering commitment to operational excellence enables us to produce strong first quarter results and deliver enhanced shareholder value. Organic revenue grew 10% and segment margin expanded a robust 200 basis points to 15% led by substantial improvement in both EMEA/LA and Global Products. Adjusted EPS of \$0.64 was up nearly 40% year-over-year and exceeded the high end of our guidance range by \$0.04. We are pleased with our strong start to the year that reinforce our operational strength and effective strategy.

On the balance sheet, we ended the first quarter with \$1.2 billion in available cash and net debt decreased to 2.3 times, which is within our long-term target range of 2 to 2.5 times. Our adjusted free cash flow of approximately \$600 million improved nearly \$800 million year-over-year. This trend demonstrate the significant improvements in our working capital fundamentals leading to increased efficiency, reduced cost and enhanced customer satisfaction.

Let's now discuss our segment result in more details on slide 7 through 9. Beginning on slide 7, Global Products had a strong start to the year. Organic sales grew 15% as price remained positive and we delivered 11 points of volume growth. Applied HVAC grew more than 30% with strong double-digit growth in North America and EMEA/LA. Adjusted segment EBITA margin expanded an impressive 740 basis points to 30.1% as our enhanced operational efficiencies are producing substantial margin improvements.

Turning to slide 8 and 9 to discuss our Building Solutions performance. Building Solutions delivered a strong quarter with consistent performance across all regions. Orders grew 16% in the quarter with strong double-digit growth in both systems and service. Orders in North America increased 18% in the quarter, led by over 20% growth in system as we continue to see strong demand for data centers, healthcare, broader industrial and manufacturing.

Additionally, we experienced an uptick in orders during the quarter as our customer proactively adapt to the changing global landscape, including anticipated tariffs. Service grew 10% with broad-based strength across the portfolio. In EMEA/LA, orders were up 6% with 9% growth in service and 4% growth in system.

In Asia-Pacific, progress continued as our year-long effort to rebuild the pipeline led to positive outcomes. Overall, orders grew 32%, led by 40% growth in system, while service grew in the low teens. Organic sales increased 8%, led by 10% growth in service and 8% growth in systems.

Sales in North America were up 10% organically, with continued strength across HVAC and controls. In EMEA/LA, organic sales grew 6%, with solid growth in controls, fire, security and industrial refrigeration. In Asia-Pacific, sales grew 5% organically, led by strong double-digit growth in our resilient service business.

The Building Solutions segments have experienced notable margin improvements through strategically building backlog with higher-margin system jobs with a long service tail. Our margin story remained consistent this quarter, mirroring the positive trends observed in previous quarters.

By region, EMEA/LA adjusted segment EBITA margin expanded 240 basis points to 10.1%, driven by improved productivity and a positive mix from growth in service. In North America, adjusted margin expanded 60 basis points to 12.1%, reflecting the execution of our higher margin backlog. In APAC, adjusted margin expanded 20 basis points to 9.3%, driven by positive mix from our service business.

Building Solutions backlog remains at a record levels, growing 11% to \$13.2 billion. Service backlog grew 8% and system backlog grew 12% year-over-year. Our record backlog provides visibility into future revenue, enabling us to drive consistent and predictable financial results. This strong foundation allows us to strategically plan and meet the sustained demand for our solutions, ensuring continued growth.

Let's discuss our fiscal second quarter and full year guidance on slide 10. We exited the first quarter with strength and sustained momentum as we executed on our strategic initiative and expanded our record backlog. This solid foundation offer great visibility into the remainder of fiscal 2025 and position us well for continued success and growth.

For the second quarter, we anticipate organic sales growth of mid-single digits, adjusted segment EBITA margin expansion of over 150 basis points to approximately 16.5%, and adjusted EPS in the range of \$0.77 to \$0.79, representing 12% to 14% growth. For the full year, we continue to expect organic sales growth of mid-single digits, which remains consistent with our long-term growth algorithm.

Following a strong start to the year and an improved service mix, we are pleased to raise our full year guidance for both margin and adjusted EPS. Considering the potential impact of tariff as known today and reflected in our guide, we anticipate higher profitability and continued enhancement in our financial performance. This expectation is primarily due to our operational focus and strong beginning to the year. We now anticipate adjusted segment EBITA margin to expand over 80 basis points and adjusted EPS in the range of \$3.50 to \$3.60 per share, representing 9% to 12% growth.

The positive cash flow at the start of the year demonstrate our working capital fundamentals continue to improve. As a result, we now anticipate achieving a free cash flow conversion of 90% or greater for the full year. We continue to target returning 100% of our free cash flow to shareholder through dividend and share repurchase.

Our strong start to the year was driven by our ongoing transformation effort, enhanced operational focus and precise execution. Streamlining processes and prioritizing key initiatives have led to early successes, setting a positive tone for the rest of the year. This solid foundation position us well for continued growth and achievement. We look forward to leveraging our strong momentum throughout fiscal year 2025.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Nigel Coe from Wolfe Research. Please go ahead.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. Thanks for all the details. So congratulations on Joakim's appointment. I'm just wondering, George, as Chairman of the board, maybe you could talk about what sort of mandates you're delivering to Joakim. Is he coming in with a free hand? Just wondering any sort of guardrails around his mandate.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

A

Yeah. I mean, we named Joakim effective on March 12. It was through a rigorous and thoughtful succession planning process. He comes with, as we've discussed, a 13-year Danaher – experience with Danaher, extensive experience scaling global companies with a foundation of customer orientation, innovation and efficiency.

And I think as you look at his background, his track record of leading service-oriented businesses, leveraging technology to be able to deliver best-in-class financial performance is uniquely suited for where Johnson Controls is in its value creation journey. I think as we've talked about, with the strategy that we've developed, you can see the momentum that we've built with that strategy. I think he comes in, brings incredible operational background and a lot of work around strategy that as we take that foundation forward, we're going to be positioned to be able to capitalize on the full growth potential of the company. Couldn't be more excited to have him coming on board, working with him, and ultimately, going through a seamless transition.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay, okay. It doesn't sound like there's any – okay. Great. And then just maybe a question for Marc. On the free cash conversion, that's sort of kind of 90% plus for the full year. Maybe just remind us, how much does that include cash restructuring payments with the ongoing program? And just maybe just touch on some of the changes you're making to the process to maybe just deliver better and more consistent free cash flow?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

A

Yeah. Hey, Nigel. So we include about \$200 million to \$250 million of restructuring cash in our 90% conversion. And that's obviously a headwind against what you would expect to see at around 100%. We've talked about the other structural challenges that we've seen.

As far as changes we're making and we've made, it's all about our operating system, and going back to the fundamental on what type of jobs we accept, how do we plan on billing the customer and collecting on the progress payment. It's also a lot of the work that has been done within our Global Products team in leveraging better volume and relying less on inventory to be able to drive that growth. You saw Global Products in the quarter grew about 11% unit with about the same level of inventory they had to hold in those businesses versus last year.

So we are very pleased with what we're seeing from an operational standpoint and also fundamental change, and that allows us to convert better from a free cash flow standpoint.

Operator: Our next question comes from Steve Tusa from JPMorgan. Please go ahead.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hi. Good morning.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Good morning, Steve.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Congrats on the appointment and seems like it was a nice exhaustive search, seems like a good outcome. So just kind of calibrating the guidance here, I mean, your orders are comping up 16%, you're organic this quarter was pretty strong, yet you kind of held the mid-single digit guide. Anything you're concerned about in the next few quarters, although you did guide second quarter pretty well as well? So anything in the back half? Obviously, the comps get a bit tougher, but anything you're worried about in the back half to drive that type of slowing.

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Yeah. I wouldn't call it slowing, but, yeah, you're right, Steve. The second half comp is – become more difficult, particularly our fourth quarter, where we had very solid growth last year in Q4, and year-on-year compare there is pretty heavy. And the math, of course, of our Q4 [ph] beat is (00:22:12) also higher from a total revenue standpoint, make the arithmetic of the second half growth a little tougher.

I think the way you need to think about that mid-single-digit is, all of our businesses will grow in that mid-single-digit level. APAC may be a little bit higher than the rest. I think for us to be comfortable to start raising above that level, we need a little bit more clarity on what we think tariff is going to do overall to our markets, our end markets, particularly North America, and then seeing if APAC actually rebounds. Right now, we're seeing them kind of bottoming out and we're starting some growth, but it's not the level of growth you would expect, given the couple of challenging years these markets have seen.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. And then just lastly on data center related business. I assume the orders are still pretty strong. Do you expect an acceleration in – you booked a lot of orders last year. The lead times are a bit longer. Are you still seeing accelerated growth rates from a sales perspective in data center for 2025 versus 2024?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Yeah, yeah, versus 2024, both orders and revenue is accelerating. What you saw in the first quarter, that solid order, particularly North America, some of that had to do with some acceleration of those orders that people were trying to get ahead of the change in leadership in the country here in January. And some of it had to do with

further visibility that some of our larger data center customer have now on their demand for cooling over the next couple of years. But we don't see that momentum slowing down whatsoever.

Operator: The next question comes from Scott Davis from Melius Research. Please go ahead.

Scott Reed Davis

Analyst, Melius Research LLC

Hey. Good morning, guys. And I'll echo my colleague's comments on Joakim. We know him well and he's going to be a great fit for you guys. So congrats.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Thanks, Scott.

Scott Reed Davis

Analyst, Melius Research LLC

I'll wait till he starts to ask the questions about his mandates and stuff. But I do want to ask a little bit about your order book, and has it changed over time, meaning are the orders a little bit longer duration now than they used to be? Are people trying to get in the queue? Just given how large so many of these projects are, obviously, data center, but not just data center, the projects overall, seem to be meaningfully larger than perhaps what we've seen, at least in recent history. Do you see a change in that order book, the duration, the lead times, that type of thing?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

We do see a little bit of a shift toward longer cycle businesses, and that comes not just market-backed, but also how we address the opportunity we see in the market. And we see the pipeline of opportunity continue to grow. And as we focus our commercial organization towards the most attractive parts of the market where we can actually sell value and margin, but also attach a long service tail to the opportunities we look at, naturally, that means we build a little bit stronger customer intimacy.

With that comes orders that are probably a little bit earlier than we saw historically, where we were a little bit more transactional and reactive to the market, and therefore, would take order kind of later in the cycle. So, yeah, naturally, our orders have a tendency now to have a little bit longer tail than they did. And then the core verticals that are growing, data center, healthcare and manufacturing are more, I would say, complex and elaborate customer that do multiyear planning that includes pushing orders' ability to revenue a little further down the timeline.

Scott Reed Davis

Analyst, Melius Research LLC

Okay. That's helpful. And guys, this is not a criticism, just would love to have some color though on incremental margins. When I just think about the service mix this quarter and then the price in that backlog, I would have guessed maybe incrementals would be a little bit higher than 30%, but I know there's lots of – there's always puts and takes to that. Maybe if we can just get a little color on that? And then I'll pass it on. Thank you.

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

No, absolutely. There's two real aspect, I would say, conservatism still. The first one comes from foreign exchange, right? We have about \$0.05 of pressure coming from just purely the dollar strengthening. It's not big, but it – from a margin rate standpoint, it puts a little bit of pressure.

And the second thing I'd tell you is, we really need to have a little bit more clarity around tariff and what it will do and how we will be able to pass on that price to the customer, and can we drive also margin on that price ultimately. And as you know that tariff landscape is very fluid and changing rapidly. And so our ability to, with clarity, predict what it will do to our margin expansion is a little bit muted in the second half.

Operator: The next question comes from Julian Mitchell from Barclays. Please go ahead.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning. Maybe just wanted to follow up, if you could give any more detail on the tariff perspective in terms of share of costs or production from some of the affected areas and how we'd think about the speed with which you'd offset those effects with the higher prices and then anything more fundamental post that? Thank you.

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

Yeah. It's hard to tell you with precision exactly how it's going to be affecting. I'll tell you two or three things. The first one is, we have evolved our manufacturing strategy to manufacture in region for the region, and that has helped us protecting some part of what's been announced. As I mentioned earlier, that landscape around tariff is very uncertain right now, and every day almost it is changing. But we do have manufacturing capabilities in North America that are not just based in the continental US, some of it in New Mexico, some of it is in Canada. And so depending on how those tariff will be enacted will have a particular impact.

I'll tell you, we have successfully dealt in the past with tariff, either by passing it on to the customer, sometimes with margin, sometimes just one for one. And we've also been able to pass on some of the pressure we see through the supply chain, either directly on price concession from our suppliers, or naturally, you'll have the effect of currencies on some of the tariff that will offset some of that pressure. We are working very diligently on our supply chain levers to drive better resilience in that supply chain and allow us to continue to drive that regionalization. We're working a little bit on our supply chain network to kind of minimize ultimately the effect of tariffs, should they be enacted.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

That's great. Thank you. And then just my follow-up would be around the corporate cost. Just really the spirit of the question, trying to understand the sort of pace of stranded cost reduction and the exit rate into 2026 for that line because I think your guide for this year implies, it's sort of \$260-ish-million, the corporate cost in the first half, and then a decent step down in the second half from that number. So is the sort of exit rate from this year a good steady state with kind of stranded costs leaned out when we're thinking about the medium term? Thank you.

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

No, for sure. So, part of that stranded cost is obviously sitting at corporate, and the timing of moving some of that cost that you would have maybe historically seen in the segments that we've divested is now kind of sitting at corporate. And as we look at the restructuring and the benefit of that restructuring, as you mentioned, you're going to see a lot of that coming out of the corporate expense in the second half, but particularly into 2026, as we are going to be able to fully enact a lot of the activities from a transformation and restructuring, allowing us to really drive a lot of leverage on that corporate cost and taking it down quite materially, looking beyond this current fiscal year.

Operator: Our next question comes from Amit Mehrotra from UBS. Please go ahead.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Thanks. Thanks a lot. Morning, everybody. George, as you – I just wanted to come back to the CEO question maybe one more time. There's obviously been a lot of progress on the strategic side. So I assume you shouldn't expect much change in terms of where the portfolio of businesses is today, maybe an acceleration of the product, productivity margin opportunity. So maybe you can just talk about what you guys found Joakim sort of bringing to the table that you and the board found particularly attractive for the company?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

A

Yeah. The journey we've been on and with the strategy, we've really set Johnson Controls up to be the leader, building commercial building solutions that are really built on – at the core of it is, the technology and our products. It's our digital platform that we deploy. And then, it's ultimately the services that we gain with the connectivity and the use of data.

And so as we've looked at the portfolio, we are – we'll complete the residential and light commercial investiture by the end of the year. That's a big step towards being more of a pure-play. There's roughly about 10% of the remaining portfolio that might not be core to the commercial building solutions. And so we'll continue to update you as we address those on an ongoing basis.

But we feel really good about how we're positioned in the market, the differentiation that we bring to our customers, and then the operating model that we're operating with that now is delivering very predictable results, right from how we're working with customers, how we're building pipeline, how we're converting pipeline, and ultimately, how we're attaching services.

And so as I said earlier, with Joakim's experience coming in and his operational experience as well as strategic experience, certainly, as we look at the portfolio and the ability to be able to create growth, we see significant opportunity. And so a lot of the focus will be now capitalizing on that opportunity with the strong operating system that we've built, really understanding the secular trends that are underway in the commercial building segment. And we believe that we're going to be uniquely positioned now to capitalize on more than our fair share.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Okay. That's very helpful. Thank you. And just related to that, maybe one follow-up for Marc. With respect to margin outlook, can you just talk about maybe the cadence of margins from here as we progress through fiscal 2025? And then, as you think about benchmark the business and look at where the productivity opportunities are,

may be a more longer-term question, where do you think the biggest margin opportunity exists today for the business?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

A

Yeah. Looking first at how we look at the second quarter, you'll see margin improvement, obviously, across the board, but the biggest opportunity will come from EMEA/LA and Global Product as well as, as we see that lift in volume in Asia Pacific, you'll see margin returning more closer to historical level. So for second quarter, and probably the same applies consistently for the second half for the same segments, that's where we see the opportunity for margin lift.

North America will see improvement, but not at the same level as those other three businesses that see a lot of opportunity. Longer term, if you think about the opportunity set here is really twofold. The first one is we've set in place an operating model that works really well and is starting to deliver performance, but the continued simplification and the restructuring effort we are doing around where we manufacture, how we manufacture the amount of product we have in our line card, and how we deploy our commercial resource around the market against that great franchise of product we've established, and how we continue to establish customer intimacy in all the market to drive better growth, I think that's where you're going to continue to see improvement in our margin because that will provide the right level of growth to support better lift in our base cost. We kind of fix the foundation of our cost and it's all about leverage here, and it's really that focus around customer back, trying to continue to drive more than our fair share from a market growth standpoint.

Operator: Our next question comes from Chris Snyder from Morgan Stanley. Please go ahead.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Maybe I wanted to ask about two kind of longer-term questions here. The first is on the growth profile. The company is talking to kind of mid-single-digit growth this year. Obviously, some tough comps here in the back half, so maybe stepping down to exit the year. But when you think longer-term, how much runway do you think there is for the company to kind of maintain this mid-single-digit organic growth? Obviously, backlog is still incredibly high. Orders don't seem to be slowing down much. So, any views on just the duration behind this? Thank you.

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

A

Yeah. So, if you look at the long-term algorithm around that mid-single-digit, it's supported first by our continued service growth. And that service business is probably going to run mid-single to high single-digit, really coming from two fundamental change in the operating model.

First, every time we think about a new system, we try to get as much as we can from a service entitlement associated to that. That means focusing on the right vertical, but also continuously increasing our customer intimacy.

The second thing I'd tell you is we have created a base of products and capabilities that are well suited for the sub-segments of the market that are fundamentally growing at a higher pace than what you would see in the expectation of GDP or market growth. And I'm thinking here about, obviously, data center, we keep on talking about, but it's also generally our manufacturing capabilities as well as – or healthcare businesses.

Those three segments continue to outpace the market. That comment is actually applicable to the vast majority of our geographies. And I think it will continue to evolve that way. So continue to drive product capabilities that serve that market well and where we can continuously generate value will help support that mid-single-digit and hopefully, more than that over the long-term algorithm.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I appreciate that. And then, I want to follow up on some of the earlier commentary about the company realizing better margin backlog, kind of starting to flow through into the P&L. So, I guess, is that – will that continue? I imagine price has kind of steadily pushed higher here over the last couple years. So, is the expectation – or is the margin in the backlog kind of continually getting better?

And then the second piece of that, you guys obviously have a very big backlog. There's long duration behind it. Is there a price protectionism in the event that we get more tariffs coming through here? Are you guys able to offset that with price on what's already in the backlog? Thank you.

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

A

No, great question. So, the margins in the backlog continue to improve simply because we continue to be able to sell value to customer. There's obviously going to be an inflection point at some time in the future, but we're far from that inflection point as the way we see it.

As far as tariffs, a large part of our backlog has contractual abilities for us to pass on that price. Some of those contracts allows us to pass the price and probably maintain margin. Some of those, it's more of a one-to-one. And therefore, we can recuperate the headwind associated with the tariff, but maybe not the margin on top.

And then there's a portion of our backlog that is with [ph] larger holder (00:39:46), largest customers that have, I would say, a little bit more leverage, and we will have to negotiate with those customers how we are going to deal with the potential tariff that could be applicable for those products. I'll tell you that for the vast majority of those customer where maybe not word for word we have full protection, we have created products that are critical to their success and we have real great partnership with them. And so, I feel very comfortable that we'll find a way to make it economical for both side and create a successful relationship with those customers.

Operator: Our next question comes from Joe O'Dea from Wells Fargo. Please go ahead. Hi, Joe, is your line on mute?

Our next question is from Joe Ritchie from Goldman Sachs. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Good morning and a nice start to the year.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

A

Thanks, Joe.

Joe Ritchie*Analyst, Goldman Sachs & Co. LLC*

Q

Let me just kind of focus, I guess, my questions on margins. So, if I recall last quarter, when we were talking about Global Products, there was an expectation, I think, that the margins were going to be kind of closer towards like a low to mid-20s and they came in a lot better. And so my first question is, what really surprised to the upside this quarter on Global Product margins?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

I wouldn't say surprised, right? We always put some conservatism to our guidance to try and make sure we don't surprise to the negative too much. There's two elements that really drove the outsized margin of Global Product in the first quarter. It's first, their ability, from a third-party revenue standpoint, to drive a nice unit growth. That 11% unit growth was a little higher than what our original low to mid-20s first half was contemplating. That team has done an excellent job driving that book-and-bill business, that short-cycle business at a very high level. Some of it came from – very transparently, from some orders accelerating as some people were positioning inventory prior to the new administration taking control in January, but some of it is really fundamentally better blocking and tackling from a commercial standpoint.

The other part is that as the data center vertical growth continues to accelerate, that business saw the benefit both internal margin and external margin, as we saw a lot of growth in our product sales through our field-based business or Building Solutions business in the other segment. And as you know, a little bit of volume in that business goes a long way, and we saw, across the board, better volume, better units, particularly on our equipment and our HVAC business that helped really absorb those factory, get great productivity and really see a nice margin lift.

Joe Ritchie*Analyst, Goldman Sachs & Co. LLC*

Q

That's super helpful, Marc. I guess maybe just a quick follow-up to that. So, was there a way to maybe quantify that kind of [ph] tariff-loading (00:43:07) comment for the first quarter? And then, as you think about the second half of the year, it looks like you're embedding about flattish margins. Is that just some conservatism because you're not really sure how the tariffs are going to play out?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

I'll answer that later with one word. Yes. The uncertainty on tariff has forced us to say, to put some conservatism on how we look at the second half and what it's going to do to margin rate.

As far as what that did to the first quarter, I'll point you more in orders than revenue. If you look at that really strong first quarter of order of about 16%, I would say about a third of that was orders that we would have normally probably saw in the second quarter where customer were just accelerating the orders because they wanted to get the uncertainty associated with not just tariff, but overall the macroeconomic or political landscape, and they wanted to get ahead of it.

So, there's a little bit of volatility in orders, as you know, if you look at orders quarter-over-quarter. And so I think this will solidify the year as we start really strongly, but we probably had some benefits in Q1 of orders that we would have normally seen in Q2. And that will probably be reflected in our orders in the second quarter.

Operator: Our next question comes from Noah Kaye from Oppenheimer. Please go ahead.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Thank you. Just looking at the organic sales growth by mix of offering applied really leading the group here. When we think about the mid-single digit organic growth for the year, Marc, can you kind of give us some goalposts for how you think about that among the different offerings? We would assume that applied would continue to be a leader here, but any color you can provide would be helpful.

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

We do see continued growth in applied and also in industrial refrigeration. Both those businesses, with the heat pump conversion in Europe as well as the data center globally and manufacturing, is a great tailwind for HVAC applied business.

Our more transactional business, our more electronics business, I'm thinking about our controls business as well as our fire and security, has a challenging second half of the year, to be honest with you. The indicator still from a construction standpoint are not super, super strong. They're flattish. And that dampens a little bit our ability to grow from that market vertical.

We've also been very diligent in driving the commercial team within those businesses to really focus on the subparts of the market that drive service. And so, we think that while those particular product line may be a little bit challenged in the second half of the year from a growth standpoint, not being able to hit double digit, they will at least provide a great base for our ability to grow service in the long-term.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Very helpful. Thanks, Marc. And then, you mentioned earlier, the real focus on service entitlements for new business. Maybe just refresh us on where that entitlement and the attachment rate related to it fits today and kind of where you see it going over the next year or two?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Yeah. Our attachment rate right now is, depending on the business line, between the low 40s to the high 40s. The best businesses are higher than that, obviously, in the 60s and 70s. And where we think, ultimately, our entitlement is, while I don't want to box myself to an exact number, I always point to industries that have demonstrated an ability to drive a very, very high attach rate, I'm thinking about oil and gas industry or, for example, the elevator industry, that is able to drive 60%, 70%, maybe sometimes higher than that. We feel that's where our entitlement is long-term. It means making some change to our operating model, drive more manufacturing for service and a few changes to how we address certain end market, but we think that entitlement is absolutely attainable over the mid to long term.

Operator: Our next question comes from Andrew Obin from Bank of America. Please go ahead.

Andrew Obin

Analyst, BofA Securities, Inc.

Yes. Good morning. How are you? Congratulations on successful CEO succession.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah. Thank you.

Andrew Obin

Analyst, BofA Securities, Inc.

Yeah. Just a question, I apologize, if it was asked. In North America Building Solutions, productivity was a negative \$20 million drag. And as I said, I apologize, if you explained it, but I think it's somewhat unusual and how should we think about it for the rest of the year?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Yeah, it's a short-term thing. So, as we continue to see growth opportunity in North America, we've invested in incremental resources to drive against that growth, whether it's our commercial team and continue to hire more seller and more sales support as well as the ability to drive incremental service and technician to be able to support that growth. And as you go through a large hiring docket like that, what ended up happening, in the very short-term, you have a little bit of a productivity as you onboard those people and make them the best possible self and drive productivity for the rest of the enterprise.

So, I wouldn't take that small \$20 million headwind in the quarter as the new normal for that business. It's really more of an uptick as we – has really made investment to continue to fuel that growth.

Andrew Obin

Analyst, BofA Securities, Inc.

Got you. Thank you. And on fire and security, mid-single digit, nice growth. A, could you just talk about sort of what's driving acceleration in EMEA/LA to high single digits, Global Products mid-single digits? And how sustainable these trends are into the second half?

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Yeah, the accelerated growth in EMEA/LA is really around what we've been talking about for the last year almost is, we re-pivoted completely that commercial organization and have taken a little bit more control over which part of the backlog they look at and just basic commercial intensity. We're going to continue to drive that team. And we believe that the mid- to high single-digit on fire and security in that business is going to continue to evolve.

I'd say that the mid-single digit at Global Product you saw in the quarter is twofold. Very strong performance commercially, but kind of an easy compare if you look at the first quarter of last year where we were still reeling out the challenges we saw associated with the cyber incident. And so they had a bit of an easier compare that team because they were very impacted by that incident.

Operator: Our next question comes from Sahil Manocha from RBC Capital. Please go ahead.

Sahil Manocha

Analyst, RBC Capital Markets LLC

Hi. Good morning. This is Sahil Manocha on for Deane Dray. Just one quick question for me. With net debt-to-EBITDA of 2.3 times and a cash position of \$1.2 billion, how are you thinking about capital deployment priorities in the current environment?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

Our capital priorities have not changed. So we'll return 100% of free cash flow back to shareholder this year. The proceed of our divestiture, assuming there's nothing material from an M&A standpoint that comes between now and the fourth quarter, will be 100% return to the shareholder via share repurchases. We will take our discontinued operations business cash flow and use that cash flow to reduce a little bit leverage and to bring it closer to the lower end of our 2 to 2.5 times. But our capital allocation and the diligence we have there has a full support of the board and it's not going to change anytime soon.

Sahil Manocha*Analyst, RBC Capital Markets LLC*

Q

Thank you.

Operator: [Operator Instructions] And our next question comes from Steve Volkmann from Jefferies. Please go ahead.

Stephen Volkmann*Analyst, Jefferies LLC*

Q

Hi. Good morning, everybody. Thanks for taking my question. A couple questions, I guess, on sort of where you are relative to capacity. So, on applied and, I guess, large chillers specifically, I'm guessing things are fairly tight. Is there some color you can give us on that? And then, should we be expecting some capacity additions at some point?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

I would regionalize that answer a little bit. In North America, we have a little bit of capacity, but we are very close to be at capacity. We see, obviously, a very strong backlog and a continued backlog. So we have great visibility there. In EMEA/LA, we're at capacity. We need to probably expand a little bit capacity to be able to follow the trend we see in data center as well as heat pump. And then in Asia Pacific, we still have quite a bit of capacity, to be transparent with you, because the market has bottomed out, but it hasn't rebounded yet. And so, our factories in Asia have the ability to drive a whole lot more growth in the future.

Stephen Volkmann*Analyst, Jefferies LLC*

Q

Okay. All right. Great. And then, maybe also on the same thread here. I think, Marc, you just said something about adding some additional field engineers, I guess, in systems and service, but where are you on sort of utilizing these folks? Is there still upside to that? Do you really need more people in order to grow that business more?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

So our operating model really drives very high level of productivity within our field technician. We are continuously working on tools to make them more productive. George talked about it in his opening comment. AI is not just a great opportunity for us from a cooling and top-line growth standpoint, it's also an incredible opportunity to make our field technician that much more productive. Either it's helping them figuring out what the problem is with a particular system or having them standing ready a little faster when it comes to the type of products or services that they need to deliver that particular day. Therefore, making their day more enjoyable, but also much more productive and keeping the customer kind of happy as we come in and out of those facilities quicker.

We continue to invest in our field labor because it's a critical element of our service growth. Our ability to continuously drive service is critical. And as you see us growing services mid- to high single-digit, productivity will help us rely less on labor, but there's still going to be a labor component, and we're going to continuously be searching for the next great talent there.

Operator: Our next question comes from Andy Kaplowitz from Citigroup. Please go ahead.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey, good morning, everyone.

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Morning, Andy.

Marc Vandiepenbeeck

Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc

Hi, Andy.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

So the APAC order growth, as you said, was actually quite strong. I know you're still probably a bit cautious about calling the all clear there. But can you call a definitive turn in that market with the understanding that it's still a fluid environment, given the tariff situation?

George R. Oliver

Chairman & Chief Executive Officer, Johnson Controls International Plc

Yeah, Andy, as we saw early signs of the softness in the region, this goes back over the last 18 months, we proactively took steps to adapt to the lower demand, and ultimately, the increased counterparty risk. And as we rebuilt the pipeline, we've now seen very strong rebound here with orders at 32% in the quarter. We believe that we found the bottom with the current run rate, which is in line with the slower market demand. And so I think based on what we've seen, we've seen real stabilization in the business and now we're really returning to growth, not only building the backlog, but the way that we're going to convert going forward.

I think, Andy, what's most important is the way that we continue to build services. In spite of some of the pressure on the new systems, services continues to be strong. We'll continue to help maintain a healthy segment EBITA margin as well as continuing – while we're continuing to rebuild the systems business.

So, I think we'll see continued growth within Asia Pac, not only recovery in China, but across the overall Asia Pac region.

Andrew Kaplowitz*Analyst, Citigroup Global Markets, Inc.*

Q

That's helpful, George. And obviously, there's a lot of questions on data centers, which makes sense, but you obviously have a lot of applied verticals. And it seems like you're still getting leadership out of healthcare or education, but maybe you can opine on some of these verticals and the visibility that you have. You're seeing improvement in office, for example. Like, what are you seeing across the verticals?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

Yeah, great question. So we continue to see strong double-digit on data center as well as healthcare and some other vertical. We still don't see any acceleration in what I would call [indiscernible] (00:56:48) real estate, which is offices and mixed buildings would fall into that category for us. You still have owners that are trying to figure out what they're going to do with their current asset and you still see some hesitation in making certain investments. It's a market that's not declining. It's just not growing at the pace of the other. We have great solutions and product to address that particular vertical as it rebounds, but it's not where we are seeing the most growth.

Infrastructure is seeing still some good tailwind from higher commitment from a construction standpoint, and we're still seeing some positive sign there. And then, everything from a semiconductor manufacturing or clean room biomed manufacturing, still globally sees a great tailwind, and I don't think we are going to see a stop to that trend anytime soon.

Operator: The next question comes from Joe O'Dea from Wells Fargo. Please go ahead.

Joseph O'Dea*Analyst, Wells Fargo Securities LLC*

Q

Hi. Sorry about that earlier. Thanks for getting me back in queue.

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

A

No problem, Joe.

Joseph O'Dea*Analyst, Wells Fargo Securities LLC*

Q

Wanted to start on just restructuring and progress over the course of the quarter, just revisit kind of how you're thinking about the cost impact in 2025, the savings impact, whether anything is trending kind of ahead or behind the plans there.

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

Yeah. So our expectation hasn't changed from a cost or a timing of it. What I'll tell you is, embedded in our guide in the second half, we've seen early signs of progress of the benefits. We started addressing very early on the stranded costs we saw as we were getting close to closing the transaction of all divestiture of the ADTI business as well as the residential and light commercial. And that gave us a little bit of a leg up on our ability to drive some

of costs out earlier on. I think you're going to see some good sign in the second half of the year from a cost standpoint. The vast majority of the benefit will really be yielded in fiscal year 2026 as we close the transaction in Q4. It will give us an opportunity to really address the vast majority of that stranded cost in the fourth quarter or into the first quarter of fiscal year 2025 – 2026.

Joseph O'Dea*Analyst, Wells Fargo Securities LLC*

Q

Great. That's helpful color. And then just wanted to come back to an earlier comment and about pricing going into backlog and talking about sort of selling value to the customer, and just to understand your evaluation of the pricing today and the pricing opportunities. And so what goes into kind of evaluating the value you're delivering and to what degree do you think you're being appropriately compensated for that?

Marc Vandiepenbeeck*Executive Vice President, Chief Financial Officer & President-Building Solutions EMEALA, Johnson Controls International Plc*

A

Well, it varies on all the different vertical we play, but what I'll tell you is our ability to drive outcome for customer allows us to not have to go into deep detail into what is the actual pricing of each component of the offering we present to them. It's a full solution, it's package, and it allows us within our organization to drive best costing and maintain margin at all time. And obviously, things change, whether it's tariff or otherwise, and we have contractual ways to actually address that through change orders with customers. As we actually go and implement those system, the application varies out, and most of our contracts have an ability for us to address that through a process that is very defined and allows us to, most of the time, recover not only our cost but as well the margin and sometimes drive even better value for the customer and JCI.

Operator: This concludes our question-and-answer session. I would 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. Thanks. I'll wrap up the call today. This quarter, Johnson Controls achieved record-setting backlog, double-digit organic sales growth and broad-based strength across our portfolio. Our strong start to fiscal 2025 is a testament that Johnson Controls has a talented, hardworking team as well as our unwavering commitment to innovation and operational excellence. And I am confident that Joakim is well-suited to lead Johnson Controls' next chapter of growth as we build on the strong momentum underway to unlock enhanced value for our stakeholders.

With that, operator, that concludes our call today.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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