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# Johnson Controls International Plc (JCI)

Q1 2026 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello, everyone, and welcome to the Johnson Controls Q1 2026 Earnings Conference Call. My name is Nadia, and I'll be coordinating the call today. [Operator Instructions]

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

### Michael Gates

*Senior Director-Investor Relations, Johnson Controls International Plc*

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

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

Please refer to our SEC filings for a list of these important risk factors that could cause actual results to differ from our predictions. We will also reference certain non-GAAP measures throughout today's presentation. Reconciliations of these non-GAAP measures are contained in the schedules attached to our press release and in the appendix to this presentation, both of which can be found on the Investor Relations section of Johnson Controls' website.

I will now turn the call over to Joakim.

### Joakim Weidemanis

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

Thanks, Mike. Good morning, everyone. Thank you for joining us on today's call. I'd like to begin by recognizing our 90,000 colleagues around the world for their commitment to our customers and for the contributions they've made to a strong start to the year.

Let's begin with slide 4. Johnson Controls enters 2026 with a solid foundation and more disciplined execution across the portfolio. Our first quarter performance reflects the progress we've been making with strong revenue growth, meaningful margin expansion, and broad-based strength across the enterprise. We are still in the early stages of this work, but I'm encouraged by the progress we've seen to-date.

As we begin deploying our proprietary Business System more broadly, leaders are displaying better candor and assessments regarding where we have opportunity and how we address those opportunities through our Business System approaches. We're seeing this firsthand in Gemba walks, in our manufacturing plants, in our field offices, in operating reviews across the business, and even in corporate.

Turning to the results. The quarter delivered ahead of expectations. I'm proud to share that orders increased nearly 40%, building on a very strong 16% last year compare. Revenue grew 6%, adjusted EBIT margins expanded 190 basis points to 12.4%, and adjusted EPS was up nearly 40% and exceeded our guidance.

A record backlog gives us strong visibility and reinforces the demand environment we're seeing. These results reflect the strength of our leading technology portfolio combined with more disciplined execution across the company. Given the strong start to the year and the momentum we're seeing across the business, we are raising our full-year guidance. Marc will walk through the details in just a few minutes.

This quarter marked an important step as we continued to provide much greater clarity on our direction and introduced our evolving enterprise strategy and priorities to leaders across the company. We cascaded and aligned goals across the organization to a focused set of enterprise-wide metrics. This gives every team a clear line of sight of their priorities aligned with our definition of winning, one that is rooted in winning more customers and better enabling our colleagues, especially those on the front line. This alignment is essential to how we operationalize our strategy, where we focus our commercial resources, where we direct our R&D investment, and where we concentrate execution resources to create the most impact and win with customers. We are building a faster-growing, more profitable and more disciplined company that is easier to run.

We do that by focusing our efforts to parts of the market where our strengths in technology and field presence align with our passion to advance human society. You can see that impact clearly in the places where our technology demonstrates its value today.

Energy efficiency and decarbonization where factories, large campuses, and buildings are some of the largest consumers of energy and amongst the biggest contributors to global emissions. In an increasingly energy-constrained world where energy costs continue to rise, our customers are under pressure to manage energy more productively, reduce the carbon footprint, but also need strong operational returns.

Turning to the next slide, this couldn't be more evident than in the fast-growing, most technology-intensive environments such as data centers. As compute becomes more powerful, rack densities rise, hybrid architectures evolve, and control systems become more advanced, data centers now require increasingly energy-efficient and precise operating conditions.

Across AI and high-density compute environments, architectures will continue to change, but they all share the same fundamental requirement: significantly greater thermal and energy management supported by more sophisticated controls. Managing energy consumption while sustaining performance is essential, and that is exactly where our technologies remain critical.

Against that backdrop, our data center momentum reflects not only strong demand from existing customers but also success in reaching new customers as our differentiated solutions gain traction.

We continue to work closely with Nvidia, applying our thermal management and controls expertise to support next-generation AI compute environments.

Johnson Controls recently released a new reference guide that maps the full thermal chain and outlines scalable, high-performance cooling architectures for an emerging class of AI factories. The guide outlines an integrated solution that leverages technology to accelerate data center deployment and increase their overall performance.

Going beyond just supplying equipment, we are architecting the thermal backbone for the next generation of AI computing. It also reinforces the strength of our innovation roadmap, reflected in the products we introduced earlier this week.

We announced two new chiller platforms that extend our leadership in high-density data center cooling. The YDAM delivers up to 3.5 megawatts of cooling in a compact footprint, providing approximately 20% higher capacity density than competing options and enabling warm-water cooling for advanced GPUs.

The YK-HT brings the industry's widest operating range and supports waterless heat reduction, which can eliminate up to 9 million gallons of cooling-tower water annually in typical deployments.

Complementing these data center platforms, we also expanded our digital service capabilities with the introduction of the Smart Ready Chiller, which provides 10 times the insights over a standard remote-connected chiller. This gives us and our customers deeper insights from day one, allowing us to shift more customers into proactive, recurring service relationships that improve reliability, reduce unplanned downtime, and lower lifecycle costs.

Together, these launches build on an already strong and comprehensive portfolio, making it even more capable and more differentiated for our customers.

In addition to the data centers, we see similar demands for energy efficiency, precision, and reliability across other mission-critical sectors. Advanced manufacturing where, for example, next-generation pharmaceutical manufacturing relies on precise environmental conditions, meaning strict control of temperature, humidity, pressurization, and air purity in large, complex research campuses and universities where similar requirements exist, as researchers discover new insights and translate science into real-world applications and where students are learning, exploring, and preparing to make their own impact.

Our customers have real unmet needs for technology innovation and service-based solutions that help them manage energy more efficiently and deliver outcomes in their mission-critical operating conditions. This is where our strengths set us apart and where we concentrate our investment and innovation. And this is exactly what gives me the confidence in the opportunity we have here at Johnson Controls and the ability to support our customers.

When I went to Gemba, I saw breakthrough innovation happening at JADEC, our Advanced Development and Engineering Center in Pennsylvania. Work built on YORK's 150-year-old legacy of pushing the boundaries of HVAC and thermal technology for today's data centers. And after also spending time with our field professionals, it became clear how much potential we can unlock by making their daily work easier and better leveraging their expertise and proximity for our customers.

Turning to slide 6, this is where our proprietary Business System will help us unlock that opportunity. As a reminder, our Business System is built on three pillars: Simplify, Apply 80/20 principles to focus on what matters the most; Accelerate, use lean methodologies to remove waste to speed up execution, improving productivity and reducing assets such as working capital tied up in the process; and Amplify, leverage digital and AI approaches to amplify impact across the enterprise.

I think of it as Accelerate or lean helps us accomplish work in days and hours versus weeks and days. And Amplify, for digital and AI enables us to take that same work and accomplish the same in hours and minutes. And it's anchored in a global cross-functional language and methodology for how we communicate, collaborate, and drive strong continuous improvement and momentum to win.

We're already seeing evidence of the business system in the way teams operate, stronger alignment, clear ownership, and greater process and tool consistency. And our talent system also plays an incredibly powerful role

in this. We've brought in select external talent with deep business system expertise while also teaching and equipping our internal colleagues to lead in this new way of working and beginning to embed across our end-to-end talent processes.

To-date, we have hosted growth summits with hundreds of leaders diving deep into our enterprise strategy and hands-on teaching, leaders teaching leaders our business system. This includes a global summit with our most senior leaders. And we're now spending time in each region to ensure full understanding, clear expectations, and accountability for this new way of working, all focused on enabling our frontline colleagues to deliver more for our customers.

As part of this, we started the new year in APAC with all the regional leaders. I spent significant time in that region in my professional life and see great opportunity, particularly aligned with our strategy and where we have strengths to further accelerate our progress and strengthen global execution. We recently appointed Susan Hughes as our APAC President. Susan brings more than 20 years of deep experience in the region, and I'm excited for the impact she'll have as we align our teams and sharpen our execution.

Let's now turn to slide 7 to show how our Business System is taking hold and the progress we're making across the company. By working together across teams and leveraging 80/20 and lean tools, we're seeing real, measurable progress.

Last quarter, I shared some examples that I'm proud to illustrate continued improvement. Our conventional HVAC sellers in one of our local markets went from 60% improvements in time spent with customers to 100% improvement. And as we bring AI into these workflows, we see the potential for another meaningful step-change, one that simply wouldn't be achievable without AI.

In one of our key manufacturing facilities for chillers, our factory on-time delivery went from 95% to now sustaining 95% to 100% for the past couple of months. This level of performance, combined with our now competitively advantaged lead times is driving higher win rates with our customers, especially in data centers as we can reliably commit to help them meet their rapidly growing needs.

These are just two examples where we go narrow and deep on an area of opportunity. Our teams are going deep and addressing other areas of opportunity from cutting service repair time to improving quality and addressing billing disputes. The benefit only continues as we scale these learnings more broadly in the organization over time.

I'm inspired by the energy, the urgency and the enthusiasm with which our leaders and teams are embracing this new way of working. More than 1,000 colleagues have actively engaged across several priority areas. Over 80 Kaizens have been completed, and 350 senior leaders have been trained in the new ways of working.

And while many of our early focus areas started in the US, as we teach and equip our leaders, we have now activated efforts in both EMEA and APAC. This way of working gives us confidence in our ability to execute and deliver on our commitments.

With that, Marc will lead you through the details.

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## Marc Vandiepenbeeck

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

Thanks, Joakim. And good morning, everyone. We delivered a strong start to the year reflecting continued momentum in the business. Our teams converted sustained customer demand into record orders while delivering solid operating performance. We're also seeing early benefits from the operating discipline we've been embedding across the company, which is helping us execute faster, improve consistency, and strengthen profitability. With this foundation, we are well positioned to deliver on our priorities and achieve on our full-year commitments.

Let's turn to slide 8 to walk through the financial highlights for the quarter. Organic revenue grew 6% with broad-based contribution across the portfolio and we delivered solid margin expansion. Segment margins increased 70 basis points to 15.7% and EBIT margin expanded 190 basis points to 12.4%, reflecting continued benefits from productivity, price realization, and improvement in our cost structure.

Adjusted EPS of \$0.89 increased nearly 40% year-over-year and exceeded our guide. Our ongoing work to simplify priority, strengthen alignment, and sharpen operational discipline is driving faster decisions, stronger pricing, and tighter cost control, supporting both growth and margins.

Let's now discuss our segment results in more detail on slide 9 and 10. Orders grew nearly 40% in the quarter, a strong performance on top of a tough 16% compare. Demand was led by data centers projects where customers are accelerating investment to support higher density workloads and AI-driven growth. Activity across our other key end markets remains stable and customers continue to prioritize Johnson Controls' differentiated mission-critical solutions.

By region, this demand strength translated into solid orders across all three segments. The Americas delivered 56% growth led by large-scale data center projects that continued to scale across the region. EMEA grew 8% with balanced high single-digit growth in both Service and Systems. In APAC, orders increased 10% driven by double-digit growth in Systems and high single-digit growth in Service.

At the enterprise level, organic sales growth was led by continued strength in Service, which grew 9% year-over-year. In the Americas, sales were up 6% organically with solid double-digit growth in Service.

EMEA grew 4% led by high single-digit growth in Service. APAC delivered 8% growth led by strong Systems performance and steady demand in Service. These results reflect strong execution across the portfolio despite a challenging 10% year-over-year comparison.

We delivered another quarter of steady margin expansion reflecting disciplined execution across pricing, productivity, and project delivery. Our teams strengthened operating leverage in both Service and Systems through higher throughput, tighter cost control, and more consistent execution. These actions reinforce the continuous strengthening of our operating model and our ability to sustain meaningful margin progress.

By region, adjusted segment EBITA margins in the Americas improved 20 basis points to 16.4%, supported by productivity gains and improved mix. In EMEA, margins expanded 120 basis points to 13%, reflecting favorable pricing and productivity gains. In APAC, margins expanded 290 basis points to 16.9% as volumes increased and factory absorption improved.

Our record backlog grew 20% to \$18 billion, highlighting the continued strength of our pipeline as revenue conversion accelerated this quarter.

Turning to our balance sheet and cash flow on slide 11. On the balance sheet, we ended the quarter with approximately \$600 million in available cash. Total liquidity remains strong, supported by our available credit facilities and disciplined working capital management.

Net debt remain within our long-term target range, declining to 2.2 times. Our capital allocation priorities remain consistent: investing in the business; maintaining balance sheet strength; and returning capital to shareholders.

Let's now discuss our fiscal second quarter and full-year guide on slide 12. As we enter the second quarter, operational momentum remains solid, supported by disciplined execution and continued strength in our backlog.

We anticipate organic sales growth of approximately 5%, operating leverage of approximately 45%, and adjusted EPS of approximately \$1.11.

For the full year, we are maintaining organic sales growth of mid-single-digits, supported by solid execution and the visibility provided by our backlog. We continue to expect operating leverage of approximately 50%, which is above our long-term algorithm as last year's stranded cost savings materialize in this year's performance.

With the strong start to the year, we are raising our adjusted EPS guidance to approximately \$4.70 per share, which is roughly 25% growth. With the increase in our EPS guidance, we continue to expect approximately 100% free cash flow conversion for the year, underscoring the quality of our earnings and the discipline of our working capital processes. Our guidance reflects the progress we're making across our operating priorities and provides a solid foundation for delivering strong results throughout the remainder of the year.

Operator, we are now ready for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question goes to Nigel Coe of Wolfe Research. Nigel, please go ahead.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning, everyone. Thanks for the question. Yeah, so I think a good place to start would be on the orders. I don't know if this is a record order, but – quarter, but I'm sure it's pretty darn close. Anything that you'd call out because we've seen extraordinary strength in other places in data center, but this is like another level higher. So, just curious, are we seeing more kind of longer duration orders, multi-year orders. Anything to call out driving the strength in orders?

**Joakim Weidemanis**

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

A

Hey Nigel, we are seeing record orders as you saw. We have a record backlog and we'll try and keep it like that going forward too, by the way.

I'm super happy that it's not only data centers that's driving the strength of our order entry, we had a very healthy life science order entry during the quarter, and that's not the first quarter that we see that strength. And that's really a result of all the effort being put into the innovation pipeline over the years, as well as the field coverage for

what we call our mission-critical verticals, where thermal management and the indoor operating conditions really matter for our customers.

Now data centers was very strong and I'm very proud of the team, what they accomplished during the quarter. Pipelines remain healthy and as a reminder, we really play in three categories broadly in data centers, not just on the chillers side, but on the [ph] craws (00:21:42), the air handling units through our Silent-Aire franchise, which is the leading franchise in air handling.

And as you know, a couple of quarters ago, we announced that we entered the CDU space where we're making some good progress. So, very pleased overall with the order entry but data centers is definitely not the only vertical that's showing really really good strength here.

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**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Great. Thanks. Okay. And then my follow-on is, I believe the backlog reflect orders that are shippable over the next 12 months. So, the -obviously the backlog increase, I think 20% was the number, if I'm not mistaken, versus the unchanged mid-single digits for this year. So, just wondering how to think about that inflection in backlog versus non-inflection in organic growth. I'm just wondering if we're starting to see a line of sight towards high single-digit organic growth?

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**Joakim Weidemanis**

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

A

I think the organic growth will continue to strengthen over time. Our guide currently reflects what we see for this year. Many of those larger orders that we're taking, also in the life science field, but in data centers, are not necessarily shippable within the next nine months or so. But we'll keep you updated on the guide here as we see opportunities to do better here potentially.

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**Operator:** Thank you. The next question goes to Amit Mehrotra of UBS. Amit, please go ahead.

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**Amit Mehrotra**

*Analyst, UBS Securities LLC*

Q

Thanks. Good morning. Hi, everybody. I just wanted to follow-up on the orders question if I could and just understand how much of this order strength is the market coming to you as opposed to maybe how you're evolving, how you go to market. And I know last time we chatted there was maybe some initiatives underway to kind of go after what you guys call the belly of the market. Is there – is that indicative of the orders?

And then just related to that, Joakim, any numbers you can provide around the non-data center growth just so we can understand a little bit how broad based this is?

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**Joakim Weidemanis**

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

A

Yeah. So, I think the data center market is growing in many different parts of the world and in different applications as well. So our growth is pretty broad-based. So like I said, we play in three different application categories. The chillers, the [ph] craws (00:24:08), the air handling units, and now starting to grow nicely here on the CDU side as well.

So, historically we had a good position with our hyperscalers as well as many of the large colos, and particularly in the United States. But over the last couple of quarters we're very happy to see the growth in Europe and Asia also start to become very meaningful for us.

And like I said in my previous comment, our orders strength in the quarter here is of course helped by data centers, but we're also very happy about, in particular the life-science-oriented growth that we're seeing. And just to put a little bit more color on that, what's happening in the pharmaceutical industry is that with the rise of biologics-based therapies, the manufacturing environments are materially different than the historical manufacturing environments. And that's why large pharmaceutical manufacturers are building new plants in many parts of the world.

And the indoor operating conditions that they require to be able to effectively manufacture these biologics-based drugs really require very strong thermal management, which is not just HVAC but also controls. And because these are large campuses with thousands and thousands of employees moving in and out every day and the value of what they manufacture is very high, it also requires other solutions in our portfolio. So, very encouraged by our continued progress in life sciences.

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**Amit Mehrotra**

*Analyst, UBS Securities LLC*



That makes sense. Thank you. And then just one of my follow-up, Marc, I wanted to ask about second half versus first half incremental margins. Obviously, you have a full year of 50% plus, you'll achieve or have achieved in the first quarter, second quarter maybe about 40%, 45%. It does imply kind of this nice step up in the second half above 50%. Can you just talk about that and maybe what are the drivers of that step up are in the second half?

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**Marc Vandiepenbeeck**

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



For sure. We can maintain the full-year roughly 50% operating leverage outlook because the structural driver of our leverage built materially around the year. And are supported by of course the backlog and the backlog margin, the visibility we have of that, and the margin expansion that come, but also the work associated with the stranded costs and it's all inflecting in the second half of the year and that leverage continues to improve.

That 50% based on our mid-single-digit perspective on top-line growth. If we can accelerate that top-line growth, not all of that incremental growth will come at an operating leverage in the 50s. It will probably come closer to our long-term algorithm well above 30% but maybe not at the 50% range.

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**Operator:** Thank you. The next question goes to Steve Tusa of JPMorgan. Steve, please go ahead.

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**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*



Hi. Good morning.

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**Operator:** Thanks, Steve. Please proceed with your question.

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**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*



Hello. Can you hear me, okay?

**Michael Gates***Senior Director-Investor Relations, Johnson Controls International Plc*

Yes, yes. We can hear you, Steve.

A

**C. Stephen Tusa***Analyst, JPMorgan Securities LLC*

Hello, can you hear me okay? Great. Thanks. Sorry. Just on the North America margin was just a little bit lighter. I hate to nitpick because they were really good results [ph] especially on (00:27:53) orders. The North America margin was a little bit lighter. There was a \$15 million headwind from other. Maybe that was something we were missing from the comp from last year or something like that. Maybe just touch on how you see North America margin trending in the next couple of quarters and anything there from the quarter.

Q

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

So, if you look at the growth in North America, very strong Systems growth, strong Service growth as well. That mix normally would be lifted by much much better growth in the Service, thanks to the rate. And we saw some benefit associated to productivity.

A

Overall, the opportunity in North America is accelerating our Service growth and the margin rate that comes with that. There was a few smaller headwind in the quarter in North America about \$15 million we tag as other, that more has to do with some periodic small adjustment we do on product liability. Those are just reserves we adjust over time. Not something material, not something recurring. We think North America margin potential continues to be strong and will probably come slightly better than what you saw in the quarter in the second half.

**C. Stephen Tusa***Analyst, JPMorgan Securities LLC*

Great. Thanks. And then just one on data center. Where do your lead times stand today...

Q

**Operator:** The next question goes to Scott Davis of Melius Research. Scott, please go ahead.

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

Scott, I...

A

**Scott Reed Davis***Analyst, Melius Research LLC*

Is Steve still on there?

Q

**Michael Gates***Senior Director-Investor Relations, Johnson Controls International Plc*

Yeah, we are. Operator, can we please ask you to take command here? Steve was asking his follow-up question. So, let's allow Steve to do that and then Scott, we'll go to you right after.

A

**Scott Reed Davis***Analyst, Melius Research LLC*

Q

No worries, guys.

**Michael Gates**

*Senior Director-Investor Relations, Johnson Controls International Plc*

A

Thank you. Operator, can you please step in? Okay, Scott, if we have you on the line, please go ahead. I will act as the interim operator.

**Scott Reed Davis**

*Analyst, Melius Research LLC*

Q

I could call Steve and ask him what his question is, but...

**Marc Vandiepenbeeck**

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

A

Go ahead, Scott.

**Scott Reed Davis**

*Analyst, Melius Research LLC*

Q

No, sorry about that. But look, I'm kind of curious that the entrance into CDUs, is the goal here to kind of bundle this into a total solution that, I would imagine it's still a separate purchase order right now and perhaps even a separate process altogether. But what...

**Marc Vandiepenbeeck**

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

A

Yeah.

**Scott Reed Davis**

*Analyst, Melius Research LLC*

Q

...where do you kind of see that market going for you guys?

**Joakim Weidemanis**

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

A

Today it's a mix, Scott. So, there are certainly a lot of business that transacts CDUs-only. But we do see plenty of opportunity for combined offers and obviously we have a number of very important key accounts. And so we work on more than one application together with them.

Over time, as the thermal architecture for data centers evolve, as is normal I think in a complicated system like that, you might see some slight changes in the overall architecture. And so, the roles that certain devices play today might evolve a little bit over time. And I think that's of course why we chose to add CDUs to our portfolio to be able to lead in that and be able to be a player that helps our data center customers with the most optimal and highest performing thermal architecture not just for today but in the future as well.

**Scott Reed Davis**

*Analyst, Melius Research LLC*

Q

Okay, fair enough. And then, Joakim, you mentioned that you were just in Asia Pac. I'm not sure it's a big broad region, so not exactly sure where you were. But perhaps since you were there recently, you could just tell us what

you're seeing on the ground because clearly we're seeing a broad set of different results. You guys were a little better than most people this quarter.

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

A

Right. Yep. Yeah, so I was – I'm not going to say I was all over the region, but I was in all the major markets and number of countries. So, in our case, we are seeing continued stabilization in China. And part in our business – and part of that of course is that we have worked hard on shifting a little bit on what the mix of which verticals we focus on in China. And so, I think we're in a better place now. Our commercial teams are more aligned with where there is still growth. And our service business there, we have continued to invest in and so we see that as a continued good opportunity. So, we see stabilization in China. But, unlikely that China is going to return to the kind of growth rates we saw in past years.

But what's exciting is that, of course, it's no secret that there are some other major economies in the region that have continued to strengthen overall. And so we – I think we have a really strong good team on the ground and a number of countries in Southeast Asia as well as India.

And some of these countries, of course, they're all looking at data centers and there are several emerging players in these markets. But in terms of, for example, investments in healthcare, hospitals, and pharmaceutical manufacturing, that's also a growth driver for us in a number of those countries there. So, I'm super excited about our prospects here in Asia. So, stabilization in China and then growth opportunities and major economies elsewhere.

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**Scott Reed Davis***Analyst, Melius Research LLC*

Q

Okay, helpful. Best of luck the rest of year, guys. Thank you.

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

A

Yeah. Thank you.

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**Operator:** Thank you. Moving back to Steve Tusa of JPMorgan. Steve, please go ahead.

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**C. Stephen Tusa***Analyst, JPMorgan Securities LLC*

Q

Yeah, thanks. That was – that's a quality move. Thank you for letting me back in. I appreciate that. Just the data center lead times. Where are you now? And then Marc, if you just could give us a little bit of color on what BMS did in the quarter. We're trying to tease out kind of the like-for-like Applied orders growth. The BMS kind of orders would – I would think be lower than what Applied was, maybe not, but maybe those two follow-ups and thanks again for letting me back in.

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

A

Yeah, sure. Lead times, I gave the example in the prepared remarks here. So, we're making good progress on the on-time delivery. And that's on-time delivery as requested by customers, right. So, by definition that is then being predictable within the lead times that the customers are asking for.

We continue to sustain, and I talked in previous calls about how we cut lead times in half for one of our product lines in a factory. And that work is now being cascaded out to the other product lines in that factory and other factories. And we did hire a new VP of Operations a couple months ago. And he and his team are now ramping very, very nicely. And I'm actually and we were reviewing it just the other day. I'm really excited about what I'm seeing from our operations teams not just in terms of short-term results but the aspirations and where we think we can get to not next year but this year. And so, more to come on that. And I think in a little bit of an environment like we have in the data center market right now, the ability to be able to deliver not just predictably but fast is part of one of many things that contributes to our competitive advantage, so.

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

A

And then BMS, yeah...

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

A

BMS, go ahead, Marc.

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

A

So, the BMS growth in the quarter was, I would characterize as very solid in the high-single-digit rate. We feel very strong about the backlog of that business because it's continued to improve. The pipeline of opportunity is also accelerating, aligned a little bit with the strategy we laid out at the beginning of the opening comments around our mission critical and how a strong BMS controls offering for those particular specific verticals is really resonating well with the customer. And we think we can continue to improve that business nicely over the next few quarters.

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**Operator:** Thank you. The next question goes to Jeff Sprague of Vertical Research. Jeff, please go ahead.

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**Jeffrey Todd Sprague***Analyst, Vertical Research Partners LLC*

Q

Hey, thank you. Good morning, everyone. Hey, I want to come back to the new products, Joakim. It's just kind of interesting how sensitive this market is, right? You might argue your stock has been weak year-to-date because Nvidia scared people about warm-water cooling, and here you are with an offering, right? So, clearly, you're in the loop on product development. You mentioned reference designs. Maybe just for the benefit of all of us, just a little bit more detail on where you sit in sort of the technology path, the forward planning, understanding what's coming down the pike and how you're – we're not surprised by this but in fact we're prepared.

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

A

Yeah. So, I can't – good morning, Jeff. I won't comment on specific product launches in the future. But the reference designs that – and there are two documents that we – guides that we issued to the market. And these reference designs for those of you who don't know, they're really for the benefit of data center designers and operators as they're working on designing the next generation of data centers. And that kind of work, we did a lot of work with Nvidia and so some of the guides that we published here is in collaboration with Nvidia.

Of course, beyond those documents that we publish, an element of how we work in this industry is we essentially every other week have large engineering teams from our largest customers, colos and hyperscalers, who sit with us in our innovation center in JADEC in Pennsylvania to collaborate on what the next generation of designs should be based on the learnings so far. And that helps feed our innovation pipeline. And it's really an excellent way where we can combine our deep technological know-how and thermal management represented by our very talented people in that innovation center with the people who are actually using the products from our customers and then apply the technologies that we have in more and more competitive solutions.

And so, you saw a couple of launches here earlier this week at the Big Show that's ongoing as we speak here. And we have a significant roadmap behind that. And as you remember, we play in three categories in data centers when it comes to thermal management, chillers, air handling units, mainly through our Silent-Aire franchise, but beyond that as well. And then we entered CDUs and then of course we're in the controls system as well. And – so, there's a lot more to come, Jeff. And we'll keep you posted as we launch these new products.

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**Jeffrey Todd Sprague***Analyst, Vertical Research Partners LLC*

Q

Great. Appreciate that. And then maybe just a different thread here. Just on the kind of the portfolio review, Joakim, that I would assume that's still ongoing. But it also looks like the retail business did not close yet. I thought that was sort of pending and close to being done. Maybe the stuff that you've already publicly identified to go, where are we in those processes and any other update would be appreciated.

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

A

Yeah. So, we continue – I think I've commented on that in the past, that we have undertaken a thorough strategic review of our entire portfolio. We've worked with the board and calibrated and aligned on what we think is appropriate and to do. And that includes both how we can execute better as well as potential alternative futures. And we've commented on a little bit how big part of portfolio that might entail.

And the main driver here is to create shareholder value. And so, we continue to work on both improving execution and on the portfolio moves that we've flagged in the past and we'll keep you posted as we make progress on that.

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

A

And I'm not going to comment on particular ongoing transaction. We have not announced anything particular on retail. We're very happy that we closed the disposition of one of our residential monitoring security system as we continue to walk away if you'd like from that particular sub-segment of the market.

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

A

Operator?

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**Operator:** The next question goes to Chris Snyder of Morgan Stanley. Chris, please go ahead.

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**Chris Snyder***Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. I wanted to talk about the longer-term margin opportunity for the company. I think when we look at the model, we can see the SG&A as a percentage of sales is quite high compared to the competitors. So, I think it's understandable the opportunity there. But can you talk about the opportunity on gross margin just because the company is already running above the industry it seems like on the gross margin line. So, can you just kind of talk about entitlement there? What is the opportunity to kind of grow that into the coming years? Thank you.

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

A

Hey, how are you? Yeah, that's a topic we've discussed in the past. And yes, our gross margins are running a little higher than some of our direct peers. I see opportunities there. I think we've discussed with – at least with some of you and some of your events, the opportunity, for example, in footprint consolidation and in our manufacturing setup. And there's also an opportunity to continue to drive better productivity in our field on the service side of things.

You should think of the example that we've talked about in our – the work we've done with the business system with our HVAC sellers, where we've been able to more than double the amount of time they spend with customers and selling. We have that kind of opportunity that we're already working on in a couple of our markets with our service teams. So, I still see healthy runway to improve our gross margins. And then on SG&A, maybe on the A-side of that, I mean, we are working away at just simply reducing our costs. We are a smaller company than we were when we owned retail. And there are – there continue to be cost reduction opportunities on the administrative cost of the SG&A.

On the S-side and the R&D spend within SG&A, on the S-side I'll refer to the example with the HVAC sellers. We think we can decouple the future growth from top line growth, from the growth of the S-costs by applying the business system and exactly the way we outlined it in the example that we gave, basically help our sellers, help them do their job, double the amount of time they can spend with customers.

And meanwhile, though, on the R&D costs, our ambition is to significantly and we have already this year in our plan and it's embedded in the guide started to ramp up our spend in R&D. And that's going to continue to increase at a very healthy rate here going forward and – but we'll still be able to drive margin expansion because of the types of things that we're working on that I gave you examples of here.

So, still unchanged view versus what we've talked about in the past. I see no reason for us not being able to achieve the segment EBIT margins that our best performing peers have. And I think over time we should be able to even go beyond that. And obviously they are not sitting still. We recognize that and they are extremely capable. So we know that's a moving target. But our opportunities are plenty here.

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**Chris Snyder***Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. I really appreciate that. And then if I could maybe follow up on labor availability in the market and particularly how it impacts the service business. I mean obviously labor seems like it's still tight out there. When we see these orders and growth numbers, it feels like it will continue to get tight. Have you – has there been any change from your perspective in the ability to kind of either recruit or retain service professionals? And is this becoming a growing competitive advantage for a company like JCI who already has such a big technician base compared to some other smaller competitors or upstarts in the market? Thank you.

**Joakim Weidemanis**

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

A

Sure. I think the availability of service labor has been a topic for the last 15 years. So that's – it's hardly a new phenomenon. And that's why so many companies including ours have been working on for several years but now we've accelerated on looking at how we can make our teams that we already have in the field much more productive. And again, think the example of how we can double the amount of time the sales people spend with customers.

We can do the same thing and we're working on a similar thing with our service team and that's process work but it's also in a much better way leveraging the connected installed base that we have and you reconfigure a little bit how work is done in field versus the office and so there's plenty of opportunity, lots to go at there.

Now we do have, like you pointed out, a significantly larger field force than many of our peers and that is an advantage. So we want to make sure that we make them more capable, more productive, but we're also wanting them to provide even more value to our customers. So over the next couple of quarters, we're working on a number of service products offerings that we don't have today that we'll be launching to the market and you'll hear more about that in the future. So, we're happy to have that advantage to be able to leverage, but we have to leverage it in a much better way doing the kinds of things that I was talking about here.

**Operator:** Thank you. The next question goes to Julian Mitchell of Barclays. Julian, please go ahead.

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Q

Hi, good morning. I just wanted to start off with slide 9 and 10, just to try and understand, I guess the tie-in of the systems orders to the systems revenue because again with that very high order growth and your lead times you've made good progress bringing those down, would have thought you'd get some translation of that into revenue this fiscal year.

So is it the case that the customers are specifically placing orders that are very long-dated? And also wanted to understand what you used to call products, is that still not in the order numbers on slide 9 and anything to call out with what's happening with products?

**Marc Vandiepenbeeck**

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

A

Yeah, thanks, Julian. So yeah, the backlog strength is very encouraging. But the mix of that backlog and the timing of the broader portfolio dynamic today only supports the mid-single digit guide we're providing. I would say we started the year on the lower range of that mid-single digit range. And I think we're going to print the second half on the higher half of that range, the better half of that range.

And if you look at the content of that backlog, all of it could be shippable right in the next 12 months. But a lot of it depends on customer availability and customer ability to accept that orders. And the way the dynamic works with some of our larger relationship is it's an ongoing conversation with those customers. The quicker they can take it, the quicker we can turn revenue. There's obviously at a certain level of growth a capacity constraint, but we don't believe we've reached that capacity constraint just yet. There's opportunity to improve there, but overall we think that backlog continues to support a solid mid-single digit revenue guide. What I would say is, is if you continue to unfold that backlog beyond the next 12 months, I think we'll be very comfortable to start talking about a slightly better growth than what we've seen maybe in the prior quarter.

**Operator:** The next question goes to Andrew Obin of Bank of America. Andrew, please go ahead.

**Andrew Obin**

*Analyst, BofA Securities, Inc.*

Yes, good morning. Can you hear me?

**Joakim Weidemanis**

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

Hi, Andrew. Yes, we can. Thank you for asking.

**Marc Vandiepenbeeck**

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

Yeah, good morning.

**Andrew Obin**

*Analyst, BofA Securities, Inc.*

Yeah, of course. Just a question. I mean, clearly improving throughput has been a key KPI for you and I think I'm trying to figure out this order thing as well. Should we think that there is a relationship with freeing up more capacity and your ability to take more orders in the near term?

**Joakim Weidemanis**

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

Yeah, absolutely. So – and on the capacity, we made significant investments in physical plant and machinery before I joined the company and so we more than tripled our physical capacity. And then with the lean work, the business system work, there's an opportunity to keep expanding that capacity materially, very materially, without having to spend the same amount of capital. We may need a little bit of capital here and there, but nowhere close to what we've spent in the past.

When larger customers are negotiating or looking at placing larger orders for number of data centers that they're planning over the next couple years, one of the factors they do look at in vendors is their ability to deliver and it's the reliability, proof points and the ability to turn things around quickly. That doesn't mean that they need things in six weeks from now.

They're simply very super realistic about their own ability to plan ahead and manage all the construction work and so on. So they know that their plans may change as the project progresses and then they need a partner who can react quickly and be flexible on the factory side. So that's kind of where both the capacity, the lead times and the reliability of the on-time delivery come in. So yeah, it's definitely part of a competitive advantage in this game that we're playing.

**Andrew Obin**

*Analyst, BofA Securities, Inc.*

And just a follow-up question on slide 6. I mean clearly you're highlighting this product introduction. I think a lot of us were in Vegas and saw specifically YK-HT product, which I think is very important for you in leapfrogging the competition. Are you starting to – are we seeing the impact of these product introductions on your orders this quarter or is it still in the come?

**Joakim Weidemanis**

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

A

I think there's – it's very minor in the orders that we've taken so far. So it's more about what's to come. And by the way, those launches, I did get a note from the team. So thanks for stopping by and spending time with our team there. All those new products, I mean they are a result of the work that we do together with our customers. I alluded to it earlier this morning.

We have large engineering teams coming in from our customers and that sit with us for a week, 10 days. And so we're creating the new roadmap – product roadmaps, basically off of what they have learned by applying ours and other people's products. And so that's why we're so excited about the launches that we have because we know that these precise needs are there and we will be able to see that in our order entry. I expect already here ramping in the quarter we're in already.

**Operator:** The next question goes to Joe O'Dea of Wells Fargo. Joe, please go ahead.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Hi, good morning. Just on the capacity expansion and the tripling of physical capacity. And is that specific to chillers or includes air handlers, just any specificity around it and kind of global versus Americas? And then really just in terms of the fixed cost impact that that has today, any quantification of a burden today and sort of how you see that improving over the next 12 months or so?

**Joakim Weidemanis**

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

A

Good question. The answer is that we have had invested in capacity across the board, meaning chillers, air handling units, and because of the investments in the air handling units capacity, we also made room for the CDU business that we launched into here a couple of quarters ago. The fixed cost aspects of those investments have already been in our run rate for more than a year.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

And presumably that's a tailwind kind of each quarter in terms of utilization.

**Marc Vandiepenbeeck**

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

A

It creates leverage opportunity as the volume comes in. Absolutely.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Yeah.

**Joakim Weidemanis**

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

A

Yeah. And as we continue to work on the lean work to eke out more capacity without adding fixed cost. Yeah.

**Operator:** Thank you. The next question goes to Andy Kaplowitz of Citigroup. Andy, please go ahead.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Hey, good morning, everyone.

Q

**Joakim Weidemanis**

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

Hey Andy.

A

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

I think – good morning. I think fire and security markets I think you said were up like low-single digits in the quarter, but as you know, a lot of those businesses have short cycle. So, are you seeing an improvement in sort of more of your short cycle markets these days given where the global economy is and specifically the US economy looking a little better?

Q

**Joakim Weidemanis**

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

I'd say there's no material change in the markets. I think the change that we are working on operationally is what you heard me talk about. I talked about the HVAC seller capacity time with customers and so on. That kind of work we've embarked on in the other parts of the company as well. And then for those, the fire and security businesses, we're also looking over how are we – where are we specifically pointing the effort, at what parts of the market and trying to help that team just be more clear about our priorities and making sure that we're behaving in the way and pointing the effort at the most attractive parts of the market.

A

So like I mentioned before, when I got the portfolio question, regardless of what the outcome is on the portfolio, we're making sure that we improve the execution, the operational performance of all parts of Johnson Controls.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

I think that's helpful. And then maybe I just want to ask the sort of capacity question a different way. Like obviously you're getting larger orders now and to become a bigger part of the portfolio. I assume they're competitive on pricing, but what's your ability to scale these projects themselves? I mean maybe you have 50 chillers or 100 chillers in each of these orders. Can you get better margin on these individual projects moving forward?

Q

**Joakim Weidemanis**

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

In terms of our ability to scale, there are no – we have no major bottlenecks at this point in time at least. And to some extent larger orders have always been part of – if we talk about data centers. But by the way on the pharma side that I commented on in some of the prepared remarks here too, some of those factory buildouts are also significant projects. So that's not a new phenomenon.

A

And the capacity build that I talked about, it isn't just the physical facilities. It's also the resources around that: project engineering teams, project management teams and capabilities like that. So we have made those

investments as well and are working on improving our ability to get more out of those teams and it's the same lean principles we're applying in those teams as we're applying in the factories.

On the margins, I mean these are of course discussions where obviously the customers ask for multiple bids, but then also there's an ongoing discussion, as you heard of, they send their engineering teams, they sit with our engineering teams, and we try and come up with solutions that really offer real tangible value: cost – less energy consumption, more cost savings and things like that. And as we do that work, we of course look at opportunities for us to also be very, very cost competitive. So there's no particular margin headwind coming at us if that's the question. We don't see that at this point in time.

**Operator:** Thank you. The next question goes to Joe Ritchie of Goldman Sachs. Joe, please go ahead.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Good morning and thanks for putting me in. So look, Joakim, you sounded obviously very happy about the record order quarter. It sounds like you're pretty sanguine on the pipeline as well. If you could maybe just characterize what the pipeline of orders looks like today versus maybe three to six months ago and then also as you kind of think about your data center customers, has there been any real discernable shift in like colos versus hyperscalers and where you're seeing demand growth today?

**Joakim Weidemanis**

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

A

Pipeline continues to remain very healthy and healthier. We are also doing – I should – and it's not that things are just falling in our laps. We're working with our sales teams around the world. So in addition to the example I gave you about the doubling the amount of time that our HVAC sellers in one region are spending with customers, we are also in the process of rolling out a very practical, pragmatic pipeline management approach, which basically aims to help and teach our sales leaders and our sales – individual sales contributors on how to more effectively plan and spend their time. And in my experience having done that a number of times what tends to happen is that you just get better pipeline growth and over time you are positioning yourself for even better order growth. So that's on the pipeline, so.

And of course the result of, as I alluded to in my prepared comments here, being much, much more deliberate with our teams about which parts of the market we want to go after versus maybe not as important, that has an impact as well. So as you shift your effort more to parts of the market that have healthier growth rates, your mix of your pipeline and order entry of course changes as well.

**Marc Vandiepenbeeck**

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

A

And then colos versus hyper. Yeah.

**Joakim Weidemanis**

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

A

Yeah. I mean, there are incremental changes in how certain hyperscalers or colos approach how they do business and how they buy and who they partner with and so on. But look, there are no real material changes in how the big players are behaving. I think as a result of our growth in the future, it started to but more in the future will come from – also from Asia Pac and Europe.

And the mix there of hyperscalers versus, let's call them local players, colos, is a little different than in the United States, not materially different. So I think if anything, our data center business is going to broaden and I think that's a good thing.

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

## Joakim Weidemanis

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

Thank you and thank you for all your questions today and thank you for those of you who visited our booth at AHR. You certainly kept our team on their toes there. So great to have you and host you there.

This quarter's results reflect the momentum that's building across Johnson Controls as our teams operate with greater clarity, discipline, and consistency. And we're seeing those improvements show up in how we serve customers and in the strength of our results as you can see.

I want to thank our 90,000 colleagues for their commitment and energy. Your focus and ownership are what give me such confidence in our opportunities ahead. But I look forward to continuing my conversations with all of our stakeholders. Thank you for joining us today.

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

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