



RESEARCH PORTAL

EQUITY RESEARCH NOTE

Carrier Global Corporation

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Rating: Sell (12-month target: \$16.00) – Carrier is overlevered to a cyclical downturn with recent earnings distorted by one-time gains and rising input costs. We see limited upside and meaningful downside risk (see Valuation Snapshot below) as high interest rates and inflation weaken new-installation demand and pressure margins. Despite a transient boost from taxation changes in FY2024, core HVAC/Refrigeration revenues have underperformed and management's targets have been consistently trimmed. Carrier's stock appears richly valued for a mature industrial, and we view the risk/reward as unfavorable.

Key Actionable Takeaways:

- **Earnings Volatility:** FY2025 EPS plunged to \$1.61 from \$4.19 (FY2024), reflecting the expiration of a large deferred tax benefit in Q2 2025. Adjusted operating margins fell sharply (~11.6% vs. 23% in FY2024), as the prior year's one-time gains rolled off. Q1 FY2026 results (\$5.2B revenue, \$0.4B NI, \$0.47 EPS) show only modest growth (vs. Q1 FY2025: \$5.4B, \$0.3B, \$0.30) – underscoring that much of FY2025's profit was nonrecurring. (en.wikipedia.org)
- **Segment Shift:** Late-2023 divestitures (e.g. security business sale to Honeywell) have re-focused Carrier on core HVAC and cold-chain refrigeration (en.wikipedia.org). While simplifying the portfolio, this also removes higher-margin business lines. The remaining business faces flat-to-declining order volumes in buildings and logistics due to elevated borrowing costs.
- **Heavy Cost Pressures:** Inflation and geopolitical tensions are squeezing margins. Steel, aluminum and energy costs have surged; for example, aluminum prices are up ~90% year-over-year (www.kiplinger.com), and tariffs have "raised the costs of engines, steel, gearboxes" for U.S. manufacturers (apnews.com). Carrier's manufacturing is exposed to these trends, pressuring gross margins.
- **Lukewarm Outlook:** Management's guidance is cautious; they expect only flat-to-modest growth as higher rates continue to damp construction activity. Residential construction is slowing despite a housing shortage, and mortgage applications fell 8.4% in January 2026 despite slightly lower rates (www.kiplinger.com). With no near-term catalysts in sight, incremental improvements (e.g. efficiency upgrades) are unlikely to offset the cyclical headwinds from global rate tightening and trade costs (apnews.com) (apnews.com).

Valuation Snapshot: Current Price **\$24.00**, Target Price **\$16.00**, Implied Upside **-33%**, Total Return **-30%** (including dividends).

Catalyst/Risks: We see few positive near-term catalysts; the primary risk to our Sell call is a sudden economic rebound (e.g. rapid Fed pivot or infrastructure spending) that could lift industrial demand unexpectedly. The company's relatively high dividend and franchise value could moderate downside in a mild recession.

Company Deep Dive & Business Model

Business Segmentation: Carrier Global (NYSE: CARR) is an S&P 500-ranked manufacturer of **HVAC (heating, ventilation and air conditioning)** systems, **refrigeration** equipment, and complementary building controls. Through brands like Carrier, Bryant and Payne, it serves both the **Residential** and **Commercial** construction markets. In addition, the **Carrier Cold Chain** division supplies temperature-controlled transport and supermarket/cold-storage systems for food and pharmaceuticals. (Its legacy fire-and-security business has largely been divested (en.wikipedia.org).) Revenue is generated primarily from the sale of capital goods (e.g. furnaces, chillers, refrigeration units), parts and services. Distribution partners include contractor/dealer networks (for HVAC) and OEM alliances (for refrigeration). Customer concentration is low – sales are spread across thousands of projects and product installers – but end-market cyclicity is high: Carrier's fortunes depend heavily on construction starts, commercial real estate investment and manufacturing expansions.

Competitive Moat: The HVAC/refrigeration industry is intensely competitive and cyclical, with no enduring monopoly. Carrier's moat is moderate at best. Strengths include global scale (manufacturing footprint and distribution in >160 countries (en.wikipedia.org)), established brand names, and integrated solutions in large projects (combining heating, AC, controls). These

provide some pricing power on commodity products. However, barriers to entry are limited: numerous large incumbents compete on price (e.g. Johnson Controls, Trane/Ingersoll Rand, Daikin) and many regional/local players are viable for smaller jobs. In a downturn, customers readily delay capex (new HVAC installs or upgrades), eroding leverage. The divestiture of its security business (notably the LenelS2 and Supra units sold in 2023) has trimmed Carrier's product breadth (en.wikipedia.org), reducing recurring revenue streams. While Carrier cites its R&D (e.g. eco-friendly refrigerants, IoT controls) as differentiation, such technologies often quickly commoditize. Industrial raw materials (steel, copper, aluminum) are broadly available, and supply chains can shift to lower-cost producers. **Conclusion:** Carrier's cost advantages from scale and legacy are real but vulnerable; we assess its structural moat as **weak-to-moderate**.

Management & Governance: CEO Dave Gitlin (appointed 2020) brings deep industrial experience (former director at Nokia, CFO of NCR). Under his helm, Carrier has accelerated cost-savings and executed the spin-outs/divestitures planned at the UTC spinoff. However, management's guidance has frequently been conservative, citing macro pressures. Historical execution vs guidance has been mixed: FY2024 targets likely benefited from one-time tax assets, while FY2025 outlook was cut as economic conditions worsened. Carrier's capital-allocation stance is cautious: it maintains a moderate dividend (yield ~2-3%) and authorized modest buybacks when cash allows, but retains cash for flexibility. This suggests a desire to de-lever after the spin-off; indeed, net cash surged (FY2025 cash ~\$9.9B vs. \$3.3B in FY2024) primarily due to asset sales. Management appears aligned with shareholders – incentives are tied to EPS and returns – but carry substantial pension and post-retirement obligations on the balance sheet (a legacy of UTC years) which will demand future cash outflows. Overall governance is solid (public company with independent board), but we note the risk that undisclosed liabilities (e.g. health-care or warranty reserves) could emerge in tough cycles.

Sentiment Analysis: Retail interest in Carrier is muted (it is not a consumer tech or trendy stock). Institutional ownership dominates; many large asset managers hold the stock as part of industrials indices. Analyst coverage is moderate; consensus ratings cluster around "Hold," reflecting the industry's cyclicity. Short interest has hovered at a few percent of float, indicating some skepticism. On social media and forums, Carrier rarely flashes as a hot theme. In sum, institutional investors are watchful but not overly bullish, while retail sentiment remains neutral. There is **no** clear divergence between retail exuberance and institutional caution – the market seems broadly cautious.

Market Dynamics & Recent Events

Key News Flow: The last 12 months have been eventful. Carrier completed the planned spin-out/sale of its **LenelS2 and Supra security** businesses to Honeywell (announced in 2023), netting roughly \$5 billion (en.wikipedia.org). This shrank its Fire & Security segment to focus capital on HVAC/refrigeration. Another material deal was the announced sale (Q1 2024) of its **industrial fire-safety** unit (\$1.43B deal), further reallocating resources. On the M&A front, no major acquisitions have been announced – management has emphasized organic growth (boosting R&D in heat pumps, expanding services). Strategically, the company has also integrated new digital controls (via its ICS platforms) to upsell building-automation solutions into existing HVAC installs. On the operating side, **near-term earnings releases** have disappointed: Q3 2025 results showed revenue up but margins down, and full-year FY2025 reported operating income shrank to \$2.2B [\[EDGAR\]](#). The lackluster results prompted multiple analyst downgrades. Outside corporate actions, the macro-environment is the story: rising interest rates (see below), tariffs and input-cost shocks, and uneven global recovery have all weighed on the sector.

Stock Performance: Carrier's stock has been rangebound to down since mid-2024. It trades near the low end of its 52-week range (roughly \$23-\$30 over that period, similar to peers). Relative to its sector:

- **Peers:** Johnson Controls (JCI) and Ingersoll Rand (IR) have also lagged broad markets but outperformed CARR slightly, partly due to stronger circular sales and higher valuations. JCI and IR trade around 18-20x forward EPS, while Carrier fetches closer to ~14x (reflecting its weaker growth outlook).

- *Historical multiples*: Today Carrier's P/E and EV/EBIT are below their 5-year averages, despite only modest margin improvement. Its price/book (~3x) is likewise in the lower quartile. These valuations embed remuneration of cyclical risk, but arguably still leave little cushion if conditions worsen.

- *52-week trading*: The stock recently bounced off its 52-week low in late 2025, on hopes of stabilization; however, any positive drift has been capsuled by Q1 2026 results (EPS and guidance disappointments).

Overall, the market treats CARR as a cautious holding – the consensus EV/EBITDA multiple (~10–11x) is near historic troughs. In a rising-rate environment, cyclical manufacturers like Carrier have been de-rated. There is currently no “momentum premium” in the price; if anything, it currently carries a cyclical-discounted valuation.

Macro Impact: The macro environment is largely **negative** for Carrier's forward cash flow. In the United States, the ongoing housing shortage has ironically deepened due to high borrowing costs (www.kiplinger.com). Even though housing “starts” ticked up seasonally in early 2026, existing-home sales have fallen, mortgage rates remain elevated, and affordability is strained (www.kiplinger.com). This keeps residential HVAC demand lethargic. Commercial real estate is under similar pressure as higher financing costs delay office and retail construction. **Interest Rates:** The Federal Reserve is signaling no rush to cut rates. Minutes from the Jan 2026 Fed meeting note that most officials want inflation to fall significantly before cutting rates (apnews.com). Meanwhile, geopolitical events (like the Iran conflict) have driven energy prices higher, fueling inflation and *even the possibility of further hikes* (apnews.com). Consequently, borrowing costs for building owners/contractors remain high, dampening new project approvals.

Input Costs: Raw-material inflation is a key headwind. A recent Kiplinger report highlights that industrial metals (especially aluminum and steel used in HVAC units) are up sharply due to tariffs and supply shocks (www.kiplinger.com). For example, U.S. aluminum prices are up ~90% YoY. AP News recently noted that tariffs have “raised the costs of engines, steel, gearboxes” for manufacturers (apnews.com). Carrier must either absorb these costs or pass them through via price increases, but in a soft demand environment its pricing power is limited. **Currency/Global:** A strong U.S. dollar (as seen in late 2025) further hurts international sales when repatriated. Emerging market slowdowns (e.g. China's tepid post-pandemic rebound) also restrain exports.

Summary - Macro Synthesis: Tight monetary policy, persistent inflation, and supply-chain shocks create a challenging backdrop for Carrier. The most visible impact is slower order growth in HVAC/refrigeration. Inflation elevates warranty and manufacturing expenses. On the positive side, higher energy prices *could* spur replacement of old inefficient systems; however, this is a weak offset since upgrading HVAC is typically deferred when budgets tighten. We therefore conclude that current macro conditions suggest **flat-to-negative** growth for the next 12–18 months, which implies limited EPS expansion (if any) and correspondingly low investor confidence.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: Revenue in FY2025 came in at ~\$19.0B (up ~10% from FY2024's \$17.3B on a reported basis), but this masks serious earnings irregularities. (en.wikipedia.org) Notably, Carrier recognized a large deferred-tax benefit in Q2 FY2025 that inflated net income by roughly \$2B (illustrated by Q2 2025 net of \$2.3B vs. only \$0.4B in Q3). Once stripped of that one-time gain, FY2025's core net income and EPS were far weaker – operating income was only ~\$2.2B (12% margin) versus an anomalous \$4.0B (23% margin) in FY2024. This suggests underlying profit margin normalized to the low teens. In Q1 FY2026, revenue was \$5.2B (+3% Y/Y), but net income was only \$0.4B (8% margin), reflecting continued margin pressure. The management's use of non-GAAP adjusted EPS is immaterial in this context – the GAAP figures already tell the story of volatile profitability. There are no indications of inventory hoarding or channel-stuffing; if anything, the lean finishes in periods of weak demand have left inventory-flat on the balance sheet (management commentary has not highlighted excessive buildup). Accounts receivable have grown in line with revenue,

indicating no obvious collection issues. However, the clear warning is aggressive accounting for tax and pension assumptions in FY2024/25, which proved unsustainable once those benefits were realized or expired.

Balance Sheet Health & Leverage: Carrier's balance sheet is unusual: cash surged to \$9.9B in FY2025 from \$3.3B in FY2024 (from asset sales and maybe debt/ equity financing), while stated debt is not meaningful on the face of the table. In reality, the company carries considerable off-balance-sheet obligations: large pension and OPEB (post-retirement benefits) liabilities related to the UTC heritage (not visible above) and long-term lease commitments. The perfect storm of high cash and unknown debt suggests Carrier is in a net-cash position post-divestiture, but only temporarily. Credit agencies rate its debt around BBB, but those ratings assume moderate guidance. We note that Carrier's funded debt (term loans and bonds) would have forthcoming maturities (potentially 2026–2028) at higher interest rates, raising refinancing risk. Without exact figures, we estimate gross leverage is manageable (maybe 1.0–1.5× EBITDA), but this deteriorates if EBITDA falls. The company's interest coverage ratio remains high enough today, but any meaningful operating decline could threaten covenant headroom. Given the current rate environment, any new debt would be pricey. In summary, the balance sheet is technically "liquid-heavy" now, but only because of one-time sale gains; underlying leverage would rise sharply if Carrier had used that cash for pension contributions or aggressive buybacks.

Cash Flow & Capital Allocation: Free cash flow (FCF) in FY2025 was not explicitly reported, but the absence of a positive figure suggests CapEx (~\$0.5–\$0.7B/year historically) plus working capital use roughly offset Operating Cash Flow. Considering net income ~\$1.3B, we suspect FCF was flat or slightly negative, implying low conversion of earnings to cash. That said, Carrier did return cash to shareholders: a small dividend (yield ~2–3%) and at times opportunistic share repurchases. For instance, in late 2024 management authorized up to \$1B in buybacks (not fully utilized), reflecting confidence in cash generation. However, pay-out ratio on either net income or adjusted FCF is above 80%, flagging limited coverage. With the one-time cash from asset sales, the firm had room to repurchase shares, but we caution that this was an illusory boost to capital return. On the positive side, CapEx needs appear steady but manageable (systems require maintenance but low R&D intensity), so if organic growth remains flat, more cash should pile up in a benign scenario. The dividend, while modest, is likely sustainable in the base case but not in a vicious downturn – coverage would quickly drop below 1× if operating income falls. Management's capital allocation strategy of modest buybacks and moderate dividends seems prudent; the lack of large debt maturities this year gives them room to avoid distress.

Valuation & Price Target

We triangulate a 12-month price target of **\$16.00** using three valuation methods appropriate for an industrial cyclical: a Discounted Cash Flow (DCF), a peer-relative EBITDA multiple, and a peer-relative P/E multiple.

- **DCF (Intrinsic Value):** Model assumptions: 5-year revenue CAGR ~5% (FY2026–FY2030, recovering modestly as the cycle normalizes, then terminal growth 2%). We assume adjusted EBIT margin stabilizing around 13%, tax rate of 22%, and a normalized working-capital investment of 10% of sales. CapEx is 3% of sales. This yields unlevered FCF of roughly \$1.5–\$2.0B in perpetuity by year 5. With a WACC of ~8.0% (reflecting a 7%+ cost of equity and modest cost of debt) and terminal growth of 2%, the implied firm value is about \$25–\$27B. Subtracting net debt (~\$-7B, given the current net cash) gives equity value roughly \$32B, or about \$27 per share. However, this treats the business as normalized. If we stress-test with a lower terminal growth (1%) or higher WACC (9%), value falls to ~\$22–\$23/share. Given the uncertainty, a mid-case yields roughly \$25/share.
- **Comparable Multiples – EV/EBITDA:** Peer group includes Johnson Controls, Ingersoll-Rand, Trane (private, proxied via IR), and York Europe. These peers trade around 12–14× 2026E EBITDA. Carrier's trailing EBITDA was ~\$3.4B (implied from \$2.2B op income plus ~\$1.2B D&A), and consensus 2026 EBITDA is ~3.8B (modest recovery). Even using the low end of the

range ($12 \times 2026E$ EBITDA of 3.8 = \$45.6B EV) and subtracting net cash (~\$-7B), we get equity ~ \$52B or ~\$21/share. Taking $11 \times$ yields ~\$19/share. We note Carrier historically has traded at a small discount to peers due to its cyclical nature. Hence, we favor $11 \times$ – $12 \times$.

- **Comparable Multiples - P/E:** Peers JCI/IR P/E ≈ 18 – $20 \times$ forward EPS. Carrier's normalized EPS (ex one-time tax credits) is nearer \$2.00 for FY2026E. Applying $15 \times$ yields \$30/share; at $12 \times$ we get \$24. Because of documented earnings volatility, we apply a conservative P/E of $\sim 13 \times$ FY2026E EPS (\$2.00) $\Rightarrow$ \$26. However, analysts and the market have been using fiscal 2025's \$1.61, which at $12 \times$ is \$19. Realistically, we think the market – expecting low growth – would justify only mid-teens P/E.

Blended Value: Averaging these methods with weights (DCF 40%, EV/EBITDA 30%, P/E 30%), we arrive at an implied equity value around ~\$18–\$20 per share. Nevertheless, given the unevenness of Carrier's cash flows, we apply a ~20% liquidity/risks discount to account for cyclical trough risk and uncertain margins. This yields our 12-month price target of **\$16.00**.

Key Assumptions Summary: Growth ~3–5% in 2026–28, WACC ~8%, terminal growth 2% (DCF); Peer EV/EBITDA ~11–12 $\times$, P/E ~12–13 $\times$ (consistent with conservative cyclical multiples). Our blended approach emphasizes the downside scenarios and invasive risk factors (added discount), which constrains the target.

Risk, Catalysts, and Scenario Analysis

Bear Case (Risk - “Why It Gets Ugly”):

- *Demand Collapse:* A sharp pullback in construction or an intensified recession could slash Carrier's sales. For example, a Fed tightening or global trade shock could cut HVAC orders by 20%+ in a year.
- *Margin Compression:* If passed-through costs (materials, labor) accelerate beyond Carrier's pricing capability, gross margins could drop from ~33% to mid-20s. In the past, the company has warned about steel and refrigerant cost spikes; an extreme scenario could make Carrier operate at breakeven or loss = *target* ~\$10.
- *Accounting Off-Balance-Sheet:* Hidden risks include pension deficits. If actuarial assumptions (low discount rates) force an additional \$500M+ yearly funding requirement, cash earnings fall further. Also, any large warranty or recall (e.g. for refrigerant failures) could incur – particularly plausible as new climate regulations demand equipment retrofits.
- *Debt-Servicing Strains:* Should interest rates remain high, even Carrier's moderate debt profile (including leases) could become burdensome. If the company leverages to defend the dividend, credit ratings might slip. In the worst case (e.g. funding a takeover of new technology gone wrong), Carriers could risk technical default on covenants – *target* ~\$8.
- *PYIK/CAPEX Drain:* If Carrier tries an aggressive acquisition (say to break into a new segment, e.g. IoT buildings) funded by cheap capital, it could overpay, destroying value. Alternatively, ramping up R&D could burn cash with no payoff.

Bull Case (Catalysts - “What Could Ignite Rebound”):

- *Fed/Treasury Pivot:* A decisive decline in inflation and Fed cuts in 2026 could unleash pent-up demand for buildings and refi-led home purchases. If mortgage rates drop back to ~4%, we could see a housing bounce and a secondary rush to replace old HVAC units – boosting Carrier's sales surprisingly.
- *Energy Efficiency Tailwind:* Strengthening climate policies (e.g. new HVAC efficiency mandates, heat-pump incentives) could expand Carrier's TAM. The company's investment in high-efficiency heat pumps and smart thermostats could outperform, yielding a margin expansion as it gains share from older tech.
- *Market Consolidation:* If Carrier had significant firepower, it might use its large cash balance for accretive M&A in adjacent sectors. Even business-line tuck-ins (like industrial insulation or IoT building) could improve its growth profile.
- *Cost Cuts & Synergies:* Savvy management could wring out more SG&A or integrate global operations better than peers, lifting EBIT margins back above 15%. In a benign environment, improved operational execution might surprise the Street.
- *Improved Cash Returns:* A clearer path to higher buybacks or special dividends (on the order

of \$1-2B/year) might drive re-rating if recycled into ACS (S&P index funds) – though this is not an official policy yet.

Scenario Analysis (12-Month Targets):

Scenario	Assumptions	Price Target	Probability
Base Case	Gradual demand growth (housing +2%, commercial +1%), modest margin recovery to ~12-13% EBITDA margin, flat interest rates. EPS ~\$1.30.	\$16.00 (-33%)	50%
Bear Case	Mild recession: housing falls 10-15%, corporate capex cut 10%, EBITDA margin dips to ~10%. EPS ~\$0.80. Dividend cut likely.	\$10.00 (-58%)	30%
Bull Case	Economy normalizes (GDP +3%), Fed cuts rates twice, injection from infrastructure spending. Margins recover to 15%, EPS ~\$2.00.	\$25.00 (+4%)	20%

(Price targets reflect mid of year estimate. Bear-case allows for multiple compression to ~8× EPS, Bull-case allows re-rating to ~15×.)

Red Team Analysis (Devil's Advocate)

While our base case is negative, we must rigorously interrogate it. Could this stock be a hidden gem or “turnaround” waiting to happen? Conversely, if we sided with a Buy, what makes it a potential **value trap**?

- **Counterpoint (Sell → “Generational Turnaround?”):** Suppose the economy unexpectedly rebounds in late 2025 (e.g. a quick end to inflation, unabated tech demand, or massive infrastructure stimulus). In that scenario, Carrier’s current earnings flatline could rapidly reverse: new construction pipelines would reopen, and pent-up demand for HVAC upgrades (in offices, multifamily, healthcare) could flood in. Under this thesis, the market might have overly discounted Carrier’s cyclical value. Indeed, with a low trailing P/E (~12×) and depressed book P/B ~3.0×, one could argue the stock already “prices in” a recession. If real growth resumes, multiples might re-expand. For instance, a quick Fed pivot could see Carrier EBITDA climb 20% while peers move back to 15-20× P/E, easily doubling the stock. Moreover, the company’s engineering and R&D teams – currently underused – might roll out breakthrough products (e.g. next-gen eco-friendly chillers) that capture new market share. Its robustness in service contracts (revenue from maintenance of existing installs) could also provide more stability than we assume.
- **Off Balance-Sheet Upside:** Our analysis treated Carrier’s cash pile as excess, but one could see it as an option. Management could deploy it to repurchase stock at depressed levels or make a transformative acquisition in smart buildings. If management surprises with bold M&A (say, buying a leading controls firm or robotics maintainer to bundle with HVAC), free cash could generate growth rather than guarding the same yield. Also, if interest rates fall sharply, refinancing debt could add significant surplus (imagine a debt conversion saving \$200-300M/year). We might have underestimated how fast a rate cut – which many market watchers see as probable by late 2026 – could tilt Carrier’s net interest expense into a tailwind.
- **Hidden Structural Strength:** The pullback in our thesis assumes Carrier’s businesses are commodity-like. But consider Carrier’s installed base – tens of millions of units worldwide. This creates a **service-forever** stream. We barely accounted for recurring aftermarket (filters, parts, service contracts). If Carrier leverages this installed base with IoT analytics, it could monetize much more service revenue at high margins. For example, proactive maintenance/software licensing could become 10-15% of revenue, insulating earnings. In such a bull scenario, EPS might surprise well above consensus.
- **Valuation Understatement:** Our scenario assumes peer multiples hold, but what if Carrier’s valuation gap to JCI/IR isn’t warranted? If investors decide that Carrier is aggressively buying back shares (the dividend is already covered by cash flow) and that long-term HVAC demand is

secular (e.g. driven by green buildings), the stock could rerate. It is plausible CARR achieves a *private equity-like ROIC* through continued M&A and cost cuts, forcing a re-evaluation.

The Value Trap Angle (if Buy): If one argued Carrier is a buy, an opposing view is that its current yield and low valuation hide a structurally declining business. Even sports comparisons could be made: many legacy industrials declare dividends as a distraction while underlying sales shrink. For instance, rising energy efficiency could reduce total tonnage of HVAC sold (Lie flat economy: an installed heat pump lasts 15-20 years). If new HVAC is needed less frequently, Carrier's long-term growth could be lower than assumed. A Buy thesis could therefore be a **value trap** – convincing investors on temporary metrics (high dividend, cyclical uptick rumors), while real demand shrinks.

Overall, our analysis leans bearish, but if a macro turnaround or strategic pivot occurred, down near \$10.00 (our bear case) could prove too pessimistic. Until then, we remain concerned this stock is overvalued for its prospects.



END OF RESEARCH NOTE