# Trane Technologies (TT)

*Updated February 1st, 2024, by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $268 | **5 Year CAGR Estimate:** | 2.9% | **Market Cap:** | $60.8 B |
| **Fair Value Price:** | $193 | **5 Year Growth Estimate:** | 8.5% | **Ex-Dividend Date:** | 03/01/24[1] |
| **% Fair Value:** | 139% | **5 Year Valuation Multiple Estimate:** | -6.4% | **Dividend Payment Date:** | 03/29/24 |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $290 | **Years Of Dividend Growth:** | 3 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Rating:** | Sell |

## Overview & Current Events

On February 29th, 2020, Ingersoll-Rand merged its industrial segment with Gardner Denver Holdings (GDI) and spun-off this segment to shareholders. Gardner Denver took the Ingersoll-Rand name and ticker, along with the Ingersoll-Rand and Club Car brands. The remaining Climate portion of the business (roughly ~80% of the prior company) was renamed Trane Technologies (TT) and began trading on March 2nd, 2020. Trane Technologies is a pure-play global climate innovator. Through the company's leading Trane and Thermo King brands, the $60.73 billion market cap company provides products and services to bring efficient and sustainable climate solutions to buildings, homes, and transportation.

On February 1st, 2024, Trane Technologies released Q4 and full-year results for the period ending December 31st, 2023. For the quarter, the company reported $4.5 billion in bookings, up 13% compared to Q4 2022, while revenue equaled $4.4 billion, 9% higher year-over-year. The Americas segment, by far the largest portion of the business, saw bookings and revenue increase by 14% and 8%, respectively. Revenue growth was driven by resilient demand for the company's products and a strong backlog, which now stands at $6.9 billion. Adjusted earnings-per-share equaled $2.17, up 19% year-over-year. For the year, adjusted earnings-per-share landed at $9.04. Trane repurchased $750 million worth of stock during the year and month of January.

Trane Technologies introduced its 2024 guidance, expecting revenue growth of approximately 7% to 8% and adjusted earnings-per-share of approximately $10.00 and $10.30. We have utilized the midpoint of this range in our outlook. It implies year-over-year growth of 12.3%.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.33 | $3.73 | $4.13 | $4.52 | $5.61 | $6.37 | $4.46 | $6.09 | $7.36 | $9.04 | ***$10.15*** | ***$15.26*** |
| **DPS** | $1.00 | $1.16 | $1.36 | $1.70 | $1.96 | $2.12 | $2.12 | $2.36 | $2.68 | $3.00 | ***$3.00*** | ***$4.51*** |
| **Shares[2]** | 263 | 261 | 259 | 249 | 242 | 244 | 243 | 242 | 235 | 231 | ***231*** | ***210*** |

Note that the historical numbers above show the previously combined Ingersoll-Rand business through 2019. From 2020 onward, the numbers reflect the independent Trane Technologies.

From 2008 through 2019, Ingersoll-Rand grew earnings-per-share by a compound rate of 8.2% per annum. This is a reasonable historical barometer as it incorporates a full business cycle (the company generates solid profits, but it is susceptible to economic cyclicality).

Moving forward, Trane Technologies has a healthy growth outlook over the long-term due to the continued expansion of the global economy, as well as a strong North American housing market. Another long-term growth catalyst is technology and innovation designed to solve climate-related issues.

[1] Estimated dates based on past dividend dates.

[2] In millions.

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Management's guidance implies another solid adjusted earnings-per-share increase for 2024. We are forecasting 8.5% annual growth over the intermediate term, remaining prudent against the possibility of a modest slowdown in growth.

## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 18.1 | 16.7 | 15.6 | 19 | 16.6 | 17.8 | 23.7 | 30.8 | 21.0 | 20.1 | ***26.4*** | ***19.0*** |
| Avg. Yld. | 1.7% | 1.9% | 2.1% | 2.0% | 2.1% | 1.9% | 2.3% | 1.3% | 1.7% | 1.7% | ***1.1%*** | ***1.6%*** |

Over the past decade, shares of Ingersoll-Rand traded hands with an average P/E ratio of about 21 times earnings. We are using a modestly humbler fair valuation multiple for Trane Technologies, weighing the solid growth prospects with the occasional cyclicality. Trading at 26.4 times the midpoint of management's guidance, we believe that the stock is somewhat overpriced and will see valuation headwinds ahead. Still, we can the stock retaining a premium valuation if our assumptions of decelerating growth don't materialize. Meanwhile, the dividend – which dates back to 1910 - has room to grow.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 30% | 31% | 33% | 38% | 35% | 33% | 48% | 39% | 36% | 33% | ***30%*** | ***30%*** |

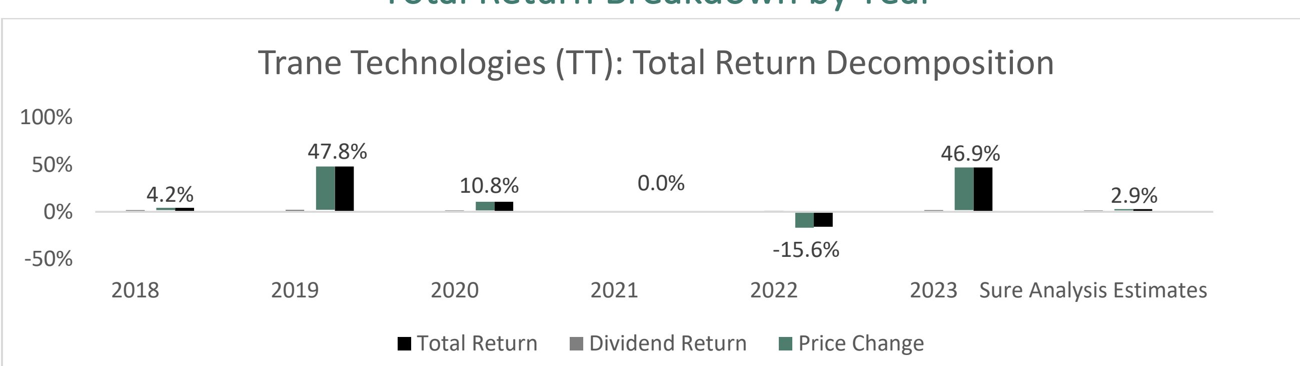
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the Great Recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23, and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 down to $0.28 in 2010. We expect Trane Technologies to perform similarly. While the bounce back performance is admirable, the company is still sensitive to economic downturns.

At the end of the most recent quarter, Trane Technologies held $1.1 billion in cash, $6.9 billion in current assets and $19.4 billion in total assets against $6.1 billion in current liabilities and $12.4 billion in total liabilities. Long-term debt stood at $4.0 billion.

## Final Thoughts & Recommendation

Shares of Trane Technologies had a phenomenal 2023. While Trane is a new name in the public markets, the company carries forward most of the legacy Ingersoll-Rand shareholders' economic interests. The business continues to perform well, and 2024 is poised to be another year of record revenues and profits. Still, we are mindful of a potentially modest slowdown in the coming years, which, along with the possibility of a valuation compression could hamper total returns over the medium-term. Due to these factors resulting in weak annual return prospects, we rate Trane Technologies a sell. Nevertheless, given Trane's ongoing momentum, we recognize that our estimate might be rather conservative.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 12,351 | 12,891 | 13,301 | 13,509 | 4,198 | 5,668 | 16,599 | 12,450 | 14,140 | 15,990 |
| Gross Profit | 3,628 | 3,909 | 4,023 | 4,201 | 4,386 | 4,821 | 5,147 | 3,803 | 4,470 | 4,965 |
| Gross Margin | 29.4% | 30.3% | 30.2% | 31.1% | 31% | 30.8% | 31.0% | 30.5% | 31.6% | 31.1% |
| SG&A Exp. | 2,523 | 2,504 | 2,532 | 2,598 | 2,721 | 2,903 | 3,130 | 2,271 | 2,446 | 2,546 |
| D&A Exp. | 334 | 332 | 364 | 352 | 353 | 362 | 397 | 294 | 299 | 324 |
| Operating Profit | 1,105 | 1,405 | 1,492 | 1,603 | ,665 | 1,917 | 2,018 | 1,533 | 2,023 | 2,419 |
| Op. Margin | 8.9% | 10.9% | 11.2% | 11.9% | 12% | 12.2% | 12.2% | 12.3% | 14.3% | 15.1% |
| Net Profit | 619 | 932 | 665 | 1,476 | 1,303 | 1,338 | 1,411 | 855 | 1,423 | 1,756 |
| Net Margin | 5.0% | 7.2% | 5.0% | 10.9% | 9.2% | 8.5% | 8.5% | 6.9% | 10.1% | 11.0% |
| Free Cash Flow | 849 | 740 | 639 | 1,339 | 1,302 | 1,042 | 1,665 | 1,289 | 1,365 | 1,212 |
| Income Tax | 189 | 294 | 541 | 282 | 80 | 281 | 354 | 297 | 334 | 376 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 17658 | 17299 | 16718 | 17397 | 18173 | 17915 | 20,492 | 18,160 | 18,060 | 18,080 |
| Cash & Equivalents | 1937 | 1705 | 737 | 1715 | 1549 | 903 | 1,304 | 3,290 | 2,159 | 1,220 |
| Acc. Receivable | 2072 | 2119 | 2151 | 2223 | 2477 | 2679 | 2,798 | 2,202 | 2,429 | 2,780 |
| Inventories | 1166 | 1359 | 1411 | 1386 | 1555 | 1678 | 1,712 | 1,189 | 1,531 | 1,994 |
| Goodwill & Int. | 9463 | 9174 | 9656 | 9444 | 9679 | 9594 | 10,932 | 8,629 | 8,810 | 8,768 |
| Total Liabilities | 10527 | 11253 | 10838 | 10679 | 10966 | 10850 | 13,180 | 11,730 | 11,790 | 11,980 |
| Accounts Payable | 1163 | 1290 | 1249 | 1334 | 1556 | 1705 | 1,809 | 1,520 | 1,787 | 2,092 |
| Long-Term Debt | 3521 | 4224 | 4218 | 4070 | 4064 | 4091 | 5,573 | 5,272 | 4,842 | 4,836 |
| Total Equity | 7069 | 5987 | 5817 | 6644 | 7140 | N/A | 7,312 | 6,408 | 6,256 | 6,089 |
| LTD/E Ratio | 0.50 | 0.71 | 0.73 | 0.61 | 0.57 | N/A | 0.76 | 0.82 | 0.77 | 0.79 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 3.4% | 5.3% | 3.9% | 8.7% | 7.3% | 7.4% | 7.3% | 4.4% | 7.9% | 9.7% |
| Return on Equity | 8.7% | 14.3% | 11.3% | 23.7% | 18.9% | --- | 19.7% | 12.5% | 22.5% | 28.5% |
| ROIC | 5.9% | 8.9% | 6.5% | 14.1% | 11.8% | --- | 11.7% | 7.0% | 12.5% | 15.9% |
| Shares Out. | 278 | 263 | 261 | 259 | 249 | 250 | 244 | 243 | 242 | 235 |
| Revenue/Share | 41.40 | 47.00 | 49.67 | 51.62 | 55.01 | 62.65 | 67.92 | 51.23 | 58.34 | 68.08 |
| FCF/Share | 2.85 | 2.70 | 2.39 | 5.12 | 5.05 | 4.17 | 6.81 | 5.30 | 5.64 | 5.16 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*