

Carrier Global - Debt, Investment or Repurchases?

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Decision scope: Use of cash from Carrier's announced portfolio transformation

Case convention: This is an author-created decision exercise. The role and alternatives are hypothetical; company disclosures are historical. No private deliberation is represented.

The decision

Carrier Global had spent the previous year changing what kind of company it wanted to be. It acquired Viessmann Climate Solutions (VCS), a European heating and energy business, and agreed to sell three businesses in fire protection, security and commercial refrigeration. A fourth fire business remained for sale. Carrier said the proceeds would reduce debt, help return net leverage to about 2x, and allow share repurchases to resume in 2024. [S1], Note 19; [S2], pp.1, 3; [S3]-[S5].

The latest available release presented a mixed financial picture. First-quarter reported sales rose 17%, but organic growth was 2%. VCS sales fell 12%, while operating cash flow less capital expenditure was negative \$64 million. Carrier forecast about \$400 million of free cash flow for 2024 and approximately \$2 billion in taxes on gains from exits, restructuring and transaction-related costs. Net debt at 31 March was \$15.582 billion, compared with \$4.278 billion at year-end. [S1], Item 7; [S2], pp.1-3, 13.

The April 25 results release was accepted at 07:05:54 ET. The company's call was scheduled for 07:30 ET. This case uses only information available at the filing time; no call remarks or later filing information is included. [S2].

Assignment: You are a hypothetical adviser to Carrier's board strategy committee. Recommend a rule for allocating cash as announced business sales close and through the next year. Address debt reduction, VCS integration and investment in Carrier's remaining climate businesses, and share repurchases. Define the conditions for resuming or expanding repurchases, identify the evidence needed to monitor the plan, and state what would cause you to change it. Do not assume a specific board discussion occurred.

A new portfolio

Carrier's stated ambition was to become a global leader in intelligent climate and energy solutions. The VCS acquisition, completed on 2 January 2024, cost \$14.2 billion in reported consideration: \$11.2 billion cash and 58.6 million Carrier shares. At the 2023 announcement, the company described VCS as a premium European business spanning heat pumps, boilers, photovoltaic products, batteries and digital solutions. About 70% of its business was described as heat pumps and related accessories, solar PV, batteries and services. Its sales channel included more than 75,000 installers across 25 countries. [S1], Item 7 and Note 19; [S3], pp.1-4.

Carrier forecast approximately €200 million in annual run-rate cost synergies, mainly from procurement and insourcing, with most expected by year three. It also identified possible revenue synergies from cross-selling. The announcement valued the agreed transaction at about €12 billion, or roughly 13 times projected 2023 EBITDA after synergies. These were pre-close management estimates, not achieved savings. [S3], pp.1-4.

The closing documents show obligations and relationships extending beyond the purchase price. Viessmann and affiliates received a conditional board-nomination right, subject to holding at least half of the share consideration and other terms. Carrier agreed to transition and commercial arrangements and a trademark royalty of €12 million annually for five years, followed by a sales-based royalty. A €113 million and a \$349 million 60-day bridge loan helped fund part of the cash consideration. The seller's rights and contractual terms are relevant to governance and integration, but do not by themselves show a conflict or operating constraint. [S4], §§1.01-2.03.

Carrier was also shrinking. It had agreed to sell Access Solutions for \$4.95 billion enterprise value, Commercial Refrigeration for \$775 million and Industrial Fire for \$1.425 billion. The company had estimated approximately \$4 billion in net proceeds from Access and more than \$1.1 billion from Industrial Fire. Three transactions were described as within months of closing. The Commercial/Residential Fire business was still being prepared for sale, without an announced agreement. [S1], Note 20; [S2], p.1; [S5]-[S6].

Enterprise value is not cash available for allocation. Each closing could involve debt or liabilities transferred, taxes, fees, retained obligations and other adjustments. Carrier had not published a complete expected net-cash bridge for all three pending sales. The announced proceeds therefore provided direction, but not a reliable total for debt repayment, investment or repurchases. [S1], Note 20; [S5]-[S6].

What the latest results showed

Carrier reported first-quarter sales of \$6.182 billion, up 17% year over year. Organic sales increased 2%; VCS added about 16 percentage points and divestitures reduced growth by about one point. Sales at VCS declined 12%, with management attributing more than half of that decline to lower solar PV sales. Americas commercial and light-commercial HVAC each grew about 20%, while residential HVAC declined by a low-single-digit rate. EMEA HVAC organic sales fell 10%. [S2], pp.1-2.

Adjusted operating profit was \$927 million, up 44%; GAAP operating profit was \$500 million, down 10%. Carrier attributed adjusted margin growth mainly to productivity and VCS contribution. It attributed the GAAP decline primarily to acquisition costs and amortization of acquired intangibles. Operating cash flow was \$40 million and capital expenditure was \$104 million, producing a company-defined \$64 million free-cash outflow. Management described this as consistent with seasonal working capital. [S2], pp.1-2, 13.

For 2024, Carrier forecast approximately \$26 billion of sales, an adjusted operating margin near 15.5%, adjusted EPS of \$2.80-\$2.90 and free cash flow of about \$400 million. The release included roughly \$2 billion of expected taxes on gains from announced exits, restructuring and transaction-related costs. This combined figure was part of the forecast context; it was not sale proceeds or a statement that all of the amount had already been paid. [S2], p.3.

At 31 March, Carrier reported \$15.647 billion of long-term debt, \$1.248 billion of current maturities and \$1.313 billion of cash. Its reconciliation showed net debt of \$15.582 billion. Net debt had been \$4.278 billion on 31 December 2023. The increase coincided with the acquisition and other operating, investing and financing flows; the release did not provide a bridge that would attribute the full change to one source. [S1], Item 7; [S2], p.13.

Carrier's 2023 Form 10-K reported \$14.293 billion of total debt at year-end, a weighted-average borrowing rate of about 3.8%, and scheduled maturities of \$3.053 billion in 2025 and \$1.245 billion in 2027. It reported S&P BBB/positive, Moody's Baa3/positive and Fitch BBB/stable ratings. Approximately 48% of year-end cash was held by foreign subsidiaries. These figures predate the VCS acquisition and most exits; they inform financing context but do not establish current covenant or rating-agency headroom. [S1], Item 7 and Note 7.

An uneven market picture

Carrier competed across commercial and residential HVAC, refrigeration, fire and security, controls, service and related products. Its 2023 sales mix was 58% Americas, 22% EMEA and 20% Asia-Pacific; products represented 76% of sales and parts and service 24%. The 2023 figures predate VCS consolidation and the planned exits. [S1], Item 1.

Two competitors' recent reports suggested different conditions across markets. Johnson Controls reported fiscal first-quarter sales down 1% organically, orders up 1% and Building Solutions backlog up 7% organically. Lennox reported first-quarter core revenue growth of 6% and an adjusted segment margin of 15.9%; its prior-year comparison excluded European operations it had sold. The companies have different geographic and business mixes, so these figures are context rather than direct benchmarks for VCS. [S7], highlights and segment tables; [S8], Q1 highlights and opening discussion.

The broader proposition was not just a heat-pump sales forecast. It included products, controls, installer relationships, service and opportunities to combine capabilities. At the same time, integration could consume management attention, cash and local autonomy. The case evidence does not disclose VCS orders, backlog, customer retention, integration spending or a realized synergy run rate. [S1], Item 1 and Item 7; [S2]; [S3].

Capital-allocation choices

Carrier's public plan was to apply divestiture net proceeds toward debt reduction, return to approximately 2x net leverage and resume repurchases during 2024. The exact leverage calculation, debt payoff sequence and repurchase amount were not disclosed. [S2], p.1.

Consider three possible rules. Each is a classroom alternative; only the first resembles the public direction Carrier had stated.

1. Debt first, then repurchases. Apply realized net proceeds to debt until the company's leverage objective is reached, then resume buybacks. Keep integration spending within approved budgets and fund additional projects through the ordinary capital process. This rule reinforces the announced balance-sheet reset and gives investors a clear sequence. Its weakness is that it may treat all internal opportunities as secondary even while the company is

integrating a major acquisition.

2. Debt default with an investment gate. Use debt reduction as the default, while reserving funding for a limited set of VCS or core-climate projects that meet specified strategic and return milestones. Repurchases begin only after actual net proceeds, transaction obligations, liquidity needs and the leverage test are verified. This rule may preserve promising investments, but project-level returns and even the proceeds bridge are not public. Any spending cap or threshold would be your proposal, not a company figure.

3. Hold repurchases until proof points. Complete the sales, establish cash and debt obligations, and wait for defined evidence on VCS integration and cash generation before restarting repurchases. Set a review date and measurable triggers so that the pause does not become indefinite. This preserves flexibility and limits execution risk, but may delay capital returns and leave shareholders uncertain about when the transformation phase ends.

No alternative can be costed precisely from the available disclosures. Carrier did not provide business-level free cash flow, returns on proposed projects, a divestiture cash bridge, a share-valuation threshold, or its exact leverage formula. Your recommendation should make those gaps part of the rule rather than silently replacing them with estimates.

Recommendation memo

Submit a two-page memo that:

1. Selects a capital-allocation rule and explains its strategic logic.
2. Defines how “net proceeds” and the leverage condition should be measured before capital is committed.
3. Addresses the strongest case against your recommendation, including VCS integration and financing risk.
4. Names two or three measures the board should review and states when the policy should be revisited.
5. Identifies the additional evidence needed to set project budgets and repurchase capacity.

Do not treat management’s €200 million synergy target as realized cash. Distinguish operating performance from acquisition accounting, enterprise value from net proceeds, and public guidance from achieved results. Recommendations, allocation rules, monitoring thresholds and timing choices are hypothetical.

Discussion questions

1. What strategic capabilities was Carrier buying with VCS, and what could be lost or disrupted by rapid integration?
2. Do the announced divestitures support a more focused portfolio? What evidence would distinguish improved fit from simply selling assets at attractive prices?
3. Should cash first reduce debt, support selected integration and climate investments, or remain uncommitted until operating evidence improves? What is the strongest argument against your choice?
4. What should Carrier require before restarting share repurchases? How would you define the leverage and liquidity gates?
5. Which missing information matters most, and what decision can still be made without it?

Sources and conventions

S1. Carrier Global, [2023 Form 10-K](#), filed 6 February 2024. Item 1, pp.2-8; Item 7, pp.32-42; Notes 7, 19 and 20, including the cited SEC HTML lines in the research source register.

S2. Carrier Global, [Q1 2024 results release, Exhibit 99 to Form 8-K](#), 25 April 2024, accession 0001783180-24-000042. Accepted at 07:05:54 ET; cited pages 1-3 and 13. The 07:30 ET call and later Q1 Form 10-Q are excluded.

S3. Carrier, [VCS transaction announcement](#), 25 April 2023, printed pp.1-4.

S4. Carrier, [VCS closing Form 8-K](#), 2 January 2024, §§1.01-2.03.

S5. Carrier, [Access Solutions sale announcement](#), 8 December 2023.

S6. Carrier, [Industrial Fire sale announcement](#), 5 March 2024; Commercial Refrigeration sale terms are in S1, Note 20.

S7. Johnson Controls, [fiscal Q1 2024 results](#), 30 January 2024. Headline and operating highlights, SEC lines 14-32; segment tables, pp.2-3.

S8. Lennox International, [Q1 2024 results](#), 24 April 2024. Q1 highlights and opening discussion, lines 28-46; prior-year scope caveat in the opening discussion.

Dollar values are nominal; percentages and adjusted measures are company-reported unless labeled otherwise. The peer disclosures are directional and not directly comparable. No post-cutoff facts or outcomes are included.