

Why We Own Trane Technologies

When someone stores a file or runs an artificial-intelligence task in Infomaniak's Geneva data centre, the electricity does not disappear. It becomes heat.

Most data centres treat that heat as a problem to remove. Infomaniak designed its underground D4 site to make it useful. Trane heat pumps raise the temperature and feed it into Geneva's district-heating network. At full capacity, the system is designed to recover 1.7 megawatts - enough, the customer estimates, to heat 6,000 energy-efficient homes in winter.

That figure is a project estimate, not an audited outcome. Infomaniak expected the site to reach full capacity by 2028. But the system is already operating, and its design has been documented through an open project run by the E4S programme of EPFL, IMD and the University of Lausanne.

It is a useful window into Trane Technologies. Cooling is usually invisible. Yet it determines whether a hospital operating room remains safe, food survives a journey and a data centre can keep computing. Trane earns revenue by managing that physical constraint more efficiently.

Structural demand: more heat, less available power

Buildings consume energy continuously. Owners also face higher power costs, ageing equipment, tighter efficiency standards and more extreme temperatures. Data centres intensify the challenge: denser computing creates more heat, while electricity, water and grid connections are constrained.

This is not demand for "green" equipment in isolation. Customers need reliable temperature control, lower operating costs and capacity that can be built where resources are scarce. Hospitals cannot accept downtime. Supermarkets cannot let refrigeration fail. Data-centre operators cannot deploy servers without a credible thermal design.

Trane Technologies serves those needs through commercial and residential heating, ventilation and air-conditioning systems; building controls and services; and Thermo King transport refrigeration. It can sell equipment, help design a system, connect it to controls, maintain it and eventually upgrade or replace it.

The same customer spending can therefore address resilience, cost and emissions at once.

Why Trane has an advantage

Trane's advantage does not rest on a single chiller. Carrier, Johnson Controls, Daikin and others are capable competitors. The stronger case is the system around the equipment.

Large customers value engineering support before an order, dependable manufacturing, controls that help optimise the site and technicians who can keep it running. A large installed base then creates future demand for service, parts, upgrades and replacement. Management says services represent about one-third of enterprise revenue and have grown at a low-teens compound rate since 2020.

Trane is also extending its reach across the cooling loop. Stellar Energy adds modular chiller plants. LiquidStack brings liquid-cooling capability closer to the computing equipment. BrainBox AI applies autonomous controls to existing buildings. A thermal-management collaboration with NVIDIA shows that Trane is participating at the design stage of next-generation AI infrastructure.

These moves do not guarantee attractive returns. Reference designs are not orders, and acquisitions can destroy value. But together they show a company investing to remain relevant as cooling changes from a product choice into a system constraint.

Where it fits. Trane sits primarily in Delta's **Climate Action** theme because its equipment, controls and services help customers use energy more efficiently, electrify heating and reduce refrigerant impact. Delta's other themes are **Nature Innovation** and **Human Advancement**. They overlap here through lower water and resource pressure, safer hospitals and homes, and dependable cold chains-but one primary classification keeps the portfolio understandable.

From customer demand to earnings

The latest results connect that structural demand to the income statement.

For the quarter ended 30 June 2026, Trane reported revenue of \$6.354 billion, up 11%, with organic growth of 9%. Organic bookings rose 37% and backlog reached a record \$12.1 billion, 70% higher than a year earlier. Americas Commercial HVAC led the result: bookings increased 50% and applied-equipment bookings 130%.

The demand was broader than data centres. Management said all 14 commercial-HVAC verticals in the Americas grew by more than 20% in the quarter, while 11 of 14 were higher year to date. That breadth matters. An investment case dependent only on continued AI capital spending would be less resilient than one also supported by hospitals, factories, schools, homes and transport refrigeration.

Revenue and adjusted earnings per share both grew, and management raised full-year guidance to about 9% organic revenue growth and adjusted earnings per share of \$15.20–\$15.30. Backlog provides visibility, with management saying about \$6 billion is scheduled for 2027 and beyond.

But orders are not cash until equipment is delivered, commissioned and paid for. Trane must expand capacity, manage suppliers and support customers whose construction or power connections may slip. The company's own second-quarter discussion acknowledged that data-centre job sites can move in either direction.

There is also a near-term economic tension. Adjusted operating margin fell 60 basis points in the quarter despite strong growth. Trane attributed part of that pressure to capacity, innovation and operational investment, alongside regional weakness. EMEA organic revenue declined 4% and adjusted operating margin fell by 420 basis points, affected by conflict in the Middle East.

The ownership case therefore requires more than demand. It requires backlog conversion, disciplined capacity spending, recovery in margins and acceptable returns from acquisitions.

A financially strong business, not just a good story

A compelling theme only matters if the company behind it can actually fund it, year after year. A business that cannot protect its margins through a cycle, or that has to choose between capacity investment and shareholder returns, will struggle to keep building the equipment this thesis depends on. So before the growth story goes further, we ask a simpler question: is this a genuinely well-run, profitable company? On the numbers, the answer is clearly yes.

Profitability. Trane earns strong returns on the capital invested in the business. Return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - has averaged around 32% over the past three years, climbing from 29% in 2023 to a peak of 34% in 2024 before easing only slightly last year. Operating margin has followed a similar path, rising from around 16% to nearly 19% over the same period, and analysts project further gains toward the low twenties percent over the next several years. A broader measure of profitability, adjusted EBITDA margin, is also higher than three years ago, though it has moved less smoothly. Returns on invested capital have risen for three consecutive years to over 23%, comfortably above the roughly 9% return we require an investment to clear.

Earnings growth. The profit Trane generates for shareholders has grown at close to 20% a year over the past three years, nearly double the rate of revenue growth over the same period. In plain terms, the business is not just getting bigger - it is getting more profitable as it grows, and a record order backlog of over \$12 billion gives good visibility into whether that pattern can continue.

Shareholder returns. None of this matters to an investor unless it shows up in the share price. Over the five years to the end of 2025, Trane's shares delivered a total return - share price growth plus dividends - that compounded at roughly 23% a year, a run matched by very few global industrial peers, and one that has continued into 2026. That average conceals a real setback: shares fell more than 15% in 2022 amid a broad reset in market valuations, a reminder that even high-quality businesses are not immune to macro swings. Each of the three years since has delivered strong gains, though the pattern wobbled again after this year's second-quarter results, when shares fell sharply on the day despite an earnings beat and a third guidance raise of the year - a valuation question we return to below.

None of this is guaranteed to continue, and margin performance in the most recent quarter shows the pattern can wobble even in a strong year - but it gives us real confidence that Trane has both the profitability and the financial discipline to keep funding the investment its impact case depends on.

Leadership we can trust

A good business also needs to be well led. However compelling the numbers, we need to be able to trust the people running the company - because performance means little if it cannot be trusted to continue honestly. On most of the measures we look for, Trane's board is well constituted: the large majority of directors are independent, all stand for election every year, and the board has been meaningfully refreshed, with five new directors added since 2020 alongside two long-serving members providing continuity. The committees that oversee remuneration and board nominations are fully independent, there is only one class of listed share, so no shareholder carries outsized voting power, and executive pay is strongly aligned with performance, with the substantial majority of senior executives' target pay tied to multi-

year measures - including relative capital efficiency and relative total shareholder return, both benchmarked against a broad set of industrial peers and both, on the most recent multi-year cycle, ranking in the top quartile.

Set against that, we apply a stricter independence standard than the exchange listing rules the company itself follows, capping tenure at ten years. Under that standard, the roles of Chair and Chief Executive are combined in a single individual, and neither the Chair nor the director designated to counterbalance that combined role currently qualifies as independent once tenure is taken into account. This is a genuine engagement priority for us: succession planning that in time separates the two roles, or refreshes the independent counterweight to them, would strengthen a board that is otherwise well constituted.

This governance foundation is matched by an improving record of capital allocation: returns on invested capital have risen for several years running, and the company's own long-term capital-efficiency metric has climbed across its two most recent three-year measurement cycles - alongside a disciplined, ongoing programme of returning surplus cash to shareholders through both dividends and buybacks. Taken together, this gives us real confidence that Trane is overseen by capable leadership that, notwithstanding the succession question above, acts in the long-term interests of shareholders and other stakeholders alike.

Outcomes as evidence

Trane's impact matters because it tests whether the products solve costly customer problems.

At Infomaniak, the heat-recovery design is intended to avoid 3,600 tonnes of carbon dioxide equivalent a year compared with natural-gas heating when operating at full capacity. The outcome is customer-reported, but the operating system and intended scale are supported by Trane, Infomaniak, the open D4 project and independent coverage.

In a different setting, the Associated Press reported that Norton Audubon Hospital in Kentucky uses 27 Trane ice-storage tanks, freezing about 74,000 gallons of water at night to help cool operating rooms and patient spaces during the day. The hospital estimated that the ice system lowered first-year energy costs by \$278,000 and that its broader efficiency programme had saved nearly \$4 million since 2016.

At enterprise scale, Trane reports that its products have reduced customers' carbon footprints by 331 million tonnes since 2019 toward a 2030 "Gigaton Challenge." That is a modelled company measure whose formula is reviewed and refined annually; selected product-use data received limited assurance. It is evidence with boundaries, not a direct meter reading.

The same report says Trane cut its own Scope 1 and 2 emissions by 59% from 2019, while absolute operational energy use was still 1.7% higher. Keeping both figures matters. Growth can make absolute resource reduction harder even when electricity becomes cleaner and operations more efficient.

Value, decision, and tension

We own Trane because three things line up: durable, structural demand for cooling and thermal management across a more digital, electrified and climate-constrained economy; a

genuinely high-quality, well-run business behind it, with strong and improving profitability, returns on capital comfortably above our required return, and a five-year run of shareholder returns matched by few industrial peers; and a board and leadership team that meets most of the tests we apply for trustworthy stewardship, with one clear succession question still open. Few companies offer conviction on all three fronts at once, even with that one open question.

We do not own it on the assumption that every data-centre project will proceed on schedule, that today's growth rate is permanent, or that every acquisition will earn its cost of capital. The central tension is that this quality is well recognised: a third-party analyst report published after the most recent quarter raised its estimate of fair value, yet still placed the market price modestly above that estimate, and shares fell sharply on the day of the results despite an earnings beat and a third guidance raise this year, as investors reset their long-term growth assumptions. A strong company can be a poor investment if the price already assumes flawless execution - continued ownership therefore depends on backlog conversion, margin recovery and disciplined returns on the recent wave of acquisitions, not on the theme alone.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- **Expectations and conversion risk.** Record orders can encourage capacity spending just as customer projects encounter power, permitting or financing delays; if backlog converts more slowly while costs have already risen, margins and cash generation could disappoint.
- **Technology and competition.** Data-centre cooling is shifting across air-cooled, water-cooled and direct-liquid architectures, and Trane's recent acquisitions - widening its offer across the cooling loop - bring integration risk alongside the opportunity.
- **Execution in service.** The installed base is only an advantage if technicians, parts and controls keep delivering dependable outcomes at a pace that matches order growth.
- **Financial-quality durability.** The margin compression seen in the most recent quarter, and a share price that already sits modestly above independent estimates of fair value, leave limited room for a weaker cycle; the profitability and returns described above are a track record, not a guarantee.
- **Leadership succession.** The combined Chair and Chief Executive role, and the lack of an independent counterweight under our stricter standard, remain open questions; how the board addresses succession over the coming years is a genuine test of the leadership case.
- **Impact-case risk.** The carbon-avoidance and cost-saving figures cited above are modelled, customer-reported or company-reported estimates, not independently audited outcomes, and efficiency gains at individual sites could be overwhelmed by growth in total cooling and computing demand.

The thesis would weaken materially if bookings and backlog conversion softened together, margin pressure proved structural rather than cyclical, acquisitions failed to earn adequate returns, or verified customer outcomes fell well short of the company's own estimates. It would also weaken if the current valuation left no margin of safety for those risks to occur together, or if the succession question above went unaddressed for an extended period.

Trane's task is to keep converting a genuine physical constraint - how to manage heat and cold reliably as the world electrifies, computes and warms - into durable orders, cash flow and profit. The evidence so far is that it is doing so: a system-level advantage feeding record backlog; profitability, returns on capital and shareholder returns that stand comparison with the best industrial businesses we cover; and a board that meets most, though not yet all, of the tests we set for trustworthy leadership. The investment case rests on that conversion continuing - funded by real financial strength, tested by real governance engagement, and disciplined by valuation - not on the theme alone.

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