# Trane Technologies Plc

Ireland, Other Industrials

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<tr><td></td><td></td><td></td><td></td><td></td><td></td><td rowspan="2">Climate Action 100+ company, so seen by investors as key to driving global net zero emissions.</td></tr>
<tr><td>Significant concerns</td><td>Significant concerns</td><td>Significant concerns</td><td>Significant concerns</td><td>Significant concerns</td><td>Significant concerns</td></tr>
<tr><td colspan="7">• As a global manufacturer of HVAC and transport refrigeration, the company has significant exposure to climate-related risks. Its 2020 Scopes 1&2 emissions profile of 413,000 tCO2e is 40% attributed to the use of refrigerants. This is dwarfed, however, by its Scope 3 emissions of 242m tCO2e for customer use of its products.<br>• New commitments for 2030 target carbon neutral operations and cutting product emissions by nearly 50%, alongside the Company's Gigaton Challenge – its plan to reduce 1bn tCO2e of carbon emissions from its customer use footprint.<br>• The absence of any visible consideration of climate-related information or assumptions in the financial statements and auditor reports stands in stark contrast to the risks identified and the commitments made to reduce emissions.</td></tr>
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## Background

The Business

- Trane Technologies (formerly Ingersoll-Rand plc) is a global manufacturer of climate control products for commercial and residential Heating, Ventilation and Air Conditioning (HVAC) and transport refrigeration. In 2009, Ingersoll-Rand moved its tax residency and headquarters to Ireland. In February 2020, Ingersoll-Rand completed a transaction to distribute shares of Ingersoll-Rand US HoldCo Inc, which contained the former Industrial segment, pro rata to shareholders[1]. Following the transaction, the company was renamed Trane Technologies plc.
- During 2020, the former Climate segment was reorganised into three new regional operating segments: Americas, EMEA, and Asia Pacific, with revenues for 2020 of 78%, 13%, and 9% respectively. Revenues were split 67% for equipment and 33% for services and parts.
- As for raw materials, the company manufactures many of the components included in its products, requiring a wide variety of commodities, principally steel, copper and aluminium.
- The company notes that Hydrofluorocarbons (HFCs) have higher global warming potential than CO2, and accounted for approximately 40% of its Scopes 1&2 emissions. Emissions for 2020 were (in metric tons of CO2e): Scope 1 – 274,000 (includes: CO2, CH4, N2O), 62% from refrigerant leaks; Scope 2 – 139,000 (includes: CO2, CH4, N2O, HFCs and hydrochlorofluorocarbons); and Scope 3 – largely includes emissions from product-use of 242m, plus 206,000 from other sources. It is not apparent how the product mix by energy source (diesel etc) contributes.
- Also in 2020, Trane undertook steps toward a goal of resolving asbestos claims through court approval of a plan of reorganisation that would establish a trust to pay all claims.[2]

Approach to climate change

- Risk factors include items on global climate change, both specifically, and more generally relating to natural disasters. The climate change-specific discussion focuses on refrigerants, and risk around the success of the company's commitments, acceptance of its products, changes to regulation or deregulation, and risk that returns will not match the investment made in new product development. Trane also highlights a lack of consistent climate

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[1] Deal completed as a Reverse Morris Trust Transaction. Any further adjustments for the finalisation of agreements (e.g. related to working capital, cash, debt, pensions and deferred compensation) to be recognised within retained earnings. Trane notes financial risks to itself and/or to shareholders if certain aspects are found not to have qualified as being tax-free.

[2] An internal restructuring saw Aldrich Pump LLC and Murray Boiler LLC, indirect wholly-owned subsidiaries, becoming solely responsible for asbestos-related liabilities, and beneficiaries of asbestos-related insurance assets. Aldrich and Murray then filed voluntary petitions for bankruptcy protection under Chapter 11. Trane no longer controls Aldrich and Murray and has deconsolidated its holdings. After recognising a net loss of $24.9m, remaining balances at the end of 2020 include an equity investment of $53.6m and a liability of $248.8m for funding obligations. The Chapter 11 cases remain pending.

legislation (including amendments to the Montreal Protocol on the phase down of certain refrigerants) and uncertainties about future incentives for energy-efficient buildings and vehicles, and costs of compliance, which may impact the demand for (and obsolescence of) its products. Natural disasters are discussed together with epidemics and other unexpected events; risks include physical damage and closure of plants, disruption to operations or the availability and cost of materials, increased insurance and other costs or reduced sales.

- 2020 Climate Commitments, set in 2014 (2013 baseline), were met two years early. Trane attributes the success in having reduced its GHG refrigerant footprint by 61% (vs a 50% goal) to investing $500m on R&D focusing on refrigerants with lower global warming potentials, and to designing new systems with smaller refrigerant charges as well as minimising leaks. The company also cut the GHG emissions intensity of its operations by 50% (vs a 35% goal), attributed to physical upgrades to buildings, passive heating/cooling techniques, and thermal energy storage, and to increased use of renewable electricity (25% of 2020 usage).
- Trane has set new commitments for 2030, which are considerably wider in ambition by including Scope 3 and its Gigaton Challenge, a commitment to reduce one gigaton of carbon emissions from its customers' footprints (1bn $tCO_2e$). The base for this appears to be 2019. The Gigaton Challenge aims to provide products that accelerate transition to renewable energy, address system-level energy efficiency through building automation systems and transport logistics, reduce food loss through solutions for transporting fresh food in developing countries, and using refrigerants with lower global warming potential.
- 2030 commitments also include achieving carbon neutral operations, and a target to cut in absolute energy consumption by 10% vs 2019.
- In March, Trane said that it also plans to cut its product carbon emissions by nearly 50% by 2030 (base year and further details unspecified), and that its emissions targets had been validated by the Science Based Targets Initiative (SBTi). Trane has also begun to integrate climate metrics into executive pay: in May, it revised the executive and senior leader incentive plan to include annual GHG reduction targets toward the gigaton goal.

## Accounting: judgements and consistency with other reporting

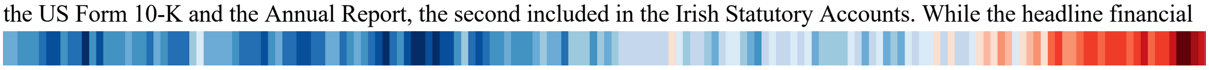
| Accounting judgements | | Significant concerns |
|---|---|---|

- There is no explicit reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the 2020 numbers.
- Indefinite lived assets subject to annual impairment assessment include goodwill of $5.3bn and certain other intangibles. While the impairment testing of indefinite lived assets involves making assumptions of future cash flows, disclosure of assumptions (including any related to climate change or commitments on emissions) is not evident, and no charges were taken.
- Trane performed an interim goodwill impairment test before restructuring its former Climate segment. It then reallocated goodwill to the three new units using a relative fair value approach, and reassessed it again. Trane's goodwill testing weights the fair values determined using three valuation techniques: a discounted cash flow model (50%), a market-adjusted multiple of earnings and revenues (40%), and a similar transactions method (10%).
- Other intangibles were $3.3bn at the end of 2020, 80% of which was trademarks/trade-names. Negligible amortisation implies these are accounted for as having indefinite lives.
- The company has significant defined benefit pension and similar plan obligations, and plan assets set aside to fund these were valued at $3.1bn at the end of 2020. The degree to which the value of these assets is insulated from climate risk is not clear.

| Consistency with other reporting | | Significant concerns |
|---|---|---|

- The company produces annual reports in the form of a US Form 10-K, an Annual Report (including the 10-K), and Irish Statutory Accounts[3]. It also produces an annual ESG report.

[3] While we have not performed an exhaustive comparison, Trane appears to produce two sets of accounts, one included in the US Form 10-K and the Annual Report, the second included in the Irish Statutory Accounts. While the headline financial



- The absence of visible consideration of climate-related information or assumptions in the financial statements stands in stark contrast to the risks identified and the commitments undertaken on climate, articulated particularly within the Annual Report (as well as the ESG report and other communications). The 10-K and Irish Statutory Accounts appear to provide more limited discussion of climate risk/commitments, but still contrast with the financials.
- Given the significance of commitments to address climate change and the prominence of steps to reduce emissions in the company's product and operating strategy, it is also concerning that separate disclosure is not more apparent, for example associated R&D, capex, the impact on margins etc, of steps being taken.

## Climate assumptions in accounts: visibility and Paris alignment

| Visibility of climate assumptions in accounts | | Significant concerns |
|---|---|---|

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

| Paris alignment | | Significant concerns |
|---|---|---|

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

## Audit: visibility in CAMs and consistency check

**US Form 10K and Annual Report**

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|---|---|
| Audit firm: PricewaterhouseCoopers LLP | Responsible partner: Andrew David Reinsel (Charlotte, North Carolina) |
| Audit standards: PCAOB (US) | Report date: February 9 2021 |

**Irish Statutory Accounts**

| | |
|---|---|
| US Audit firm: PricewaterhouseCoopers | Responsible partner: Kevin Egan (Dublin) |
| Audit standards: ISAs (Ireland) | Report date: April 7 2021 |

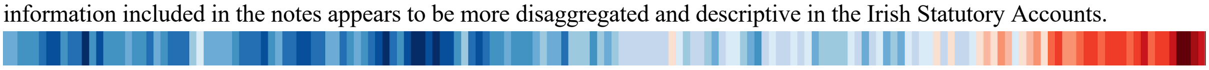
| Visibility in Critical Audit Matters | | Significant concerns |
|---|---|---|

- There is no explicit reference to climate change in the auditors' reports.
- The auditors draw attention to two CAMs: (i) the Tax-Free Determination of the Reverse Morris Trust Transaction; and (ii) Reassignment of Goodwill to Newly Designated Reporting Units, relating to the new organisational model. Neither of these appears to relate to climate change.
- The company's reassignment of goodwill was based on market-adjusted multiples of earnings and revenues that reflect the market's current expectations for future growth and risk, adjusted for differences between guideline publicly traded companies and the group's reporting units.

| Consistency check | | Significant concerns |
|---|---|---|

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies no material inconsistency was identified.
- ISAs Ireland: The auditor's report identified the other information as including the Director's Report, and noted 'nothing to report' based on the responsibility to read it for consistency.
- The absence of consideration of climate risks and commitments in the financials and auditors' reports stands in contrast to disclosed risks and commitments outside of the financials.

amounts are the same, the formatting of financial statements and some terminology used to describe amounts differs. Certain information included in the notes appears to be more disaggregated and descriptive in the Irish Statutory Accounts.



| The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards. | Key |
|---|---|
| | Good practice |
| | Few concerns |
| | Some concerns |
| | Significant concerns |



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