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**Kone Oyj** (KNEBV.FI)

Q2 2024 Earnings Call

## CORPORATE PARTICIPANTS

### Sanna Kaje

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### Ilkka Hara

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### Philippe Delorme

*President & Chief Executive Officer, Kone Oyj*

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## MANAGEMENT DISCUSSION SECTION

### Sanna Kaje

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Good morning and welcome to KONE's Q2 Result Presentation. I'm Sanna Kaje, Head of KONE's Investor Relations and I have here with me today our President and CEO, Philippe Delorme; and CFO, Ilkka Hara. But before I let Philippe and Ilkka present today, a short notification, we've heard that there are currently some global telecoms issues and there is a risk at the moment that we might not be able to take your questions online. So, we wanted to give that as a heads up, but let's see how things develop.

But with that, I'll hand over to Philippe.

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### Philippe Delorme

*President & Chief Executive Officer, Kone Oyj*

Good morning, Sanna, and good morning, everyone. Glad to be with you today. So I'd like to start by sharing a couple highlights from the quarter. First and foremost, I'm very pleased that the focus on service and modernization is delivering results. We saw, again, strong service sales growth at 9% and record high Modernization holders. We also saw the sixth consecutive quarter of profitability improvement, which has been and is high on our agenda. The market outlook has mostly remained similar to what we saw three months ago, [ph] we still a couple updates (00:01:18). The first one is the China Building Solutions market continues to be challenging and we have downgraded the market outlook slightly. At the same time, we have upgraded the outlook for the North American Modernization market. Finally, something I'm very happy about, which is our employee engagement improving and being well above the global benchmark.

So now, let's take a look at all of this in more detail. I'll start as usual with the financial highlights. So for me, the standout of the quarter was the double-digit growth in orders in three out of our four areas. As said, we had very strong orders in Modernization, but also some good wins in New Building Solutions, for example, in Europe. At the same time, Chinese New Building Solutions market continue to be challenging. Overall, our orders received grew by 3.6% at comparable exchange rates.

Our sales were stable in the quarter at comparable currencies, with continued strong growth in both Service and Modernization while, as I said, the New Building Solutions sales declined significantly driven by China. Our adjusted EBIT margin improved by 20 basis points from the previous year now the sixth consecutive year-over-year improvement, and the cash flow was solid. Ilkka will, as usual, elaborate more on the financial in a couple of minutes.

So next, I'd like to share a couple of exciting customer references. And as usual, we've taken the four area of KONE, two example New Building Solutions, and two example in Modernization. First, a very topical project ahead of the Olympics, the Grand Paris Express, we have delivered 56 escalators to the Saint-Denis-Pleyel station, which serve one of the key venues for the Summer Olympics. It's been of utmost importance for the customer that we are able to deliver on time and with high quality despite the complexity of the project. So, it was in fact our earlier track record in reliability and good collaboration that has been one of the key reasons for being trusted with several orders in this project.

The second case I want to share is the high-rise project, Wasl Tower in Dubai. This is a project where there was a lot of groundbreaking innovation on sustainable construction in the building and sustainability was also one of the key criteria for choosing KONE as a supplier for the over 30 elevators with regenerative drive and the four escalators.

We also enabled efficient construction during the project with our superfast construction Time Use elevators and the customer choose also our 24/7 Connected Services for predictive maintenance. I also want to highlight a couple of exciting Modernization order, which again is a highlight of Q2. The Xujiahui Garden is a residential complex in Shanghai where we will upgrade 14, 20-year old KONE MiniSpace elevators. The project is a great example of the rapidly growing Modernization opportunity in China where actually we are doing very well. The last reference is from Chicago, in the US, where we were awarded a large office redevelopment project, the Thompson Center. Once completed, the building will become a Google campus with more than 1,000 workers and also in these projects, sustainability was highly important for the customer.

Now, let's take a look at some other highlight for the quarter by business lines. So first Service, we had another quarter of very strong growth in our Service base, taking us above 1.7 million units in service. The recent bolt-on acquisition contributed to about 1.5% of the growth, but also the organic growth remain above 5%. We also continue to scale and to further develop our new digital tool that enable us to perform services in a smarter way. One example is a remote service that we talk about last time, that we are expanding to more country across Europe and it's a real hit with our customers.

In Modernization, the key highlights were the many project wins that demonstrate both the market potential, but also our competitiveness in the market. We continue to strengthen this competitiveness by developing further our KONE Upgrade, partial Modernization solution by broadening the coverage of the offering for both KONE and non-KONE equipment.

The great thing about partial Modernization that instead of replacing the whole equipment, we can improve the reliability and [indiscernible] (00:06:31) significantly in a sustainable way.

Last but not least, in New Building Solutions, we've worked hard to further improve our offering and especially for the highly cost conscious residential segment to even better match the customer needs in a cost competitive way. And as a final highlight, I want to mention our gen AI assisted tendering tool that we've been scaling. It's quite exciting how we can improve the responsiveness and sales efficiency with the help of gen AI that everyone is talking about.

We also got valuable feedback from our employees and customers from our annual surveys and these two points are two key strategic goal for us so they are really important. So first things first, the employees, I'm really happy that our employee engagement improved during this period of many changes in the company and continued to be

well above the global benchmark. We saw strong results in well-being, inclusion and intend to stay with KONE and I'm also very thankful for the very high 92% participation rate in this survey.

In the customer loyalty surveys, we improved on many aspects. For instance, we saw a strong increase in Modernization, and at the same time, the result provide us with very good insight on the areas where we need to work hard to improve the customer experience. Finally, we have also made a new appointment to our executive board so, Kaija Bridger has been appointed Executive Vice President, People & Communications for the company as of July 1, 2024. Kaija began her career at KONE in 2015 and has held various leadership positions in People & Communications, most recently as Vice President, People & Communications for KONE Asia-Pacific, Middle East and Africa. I'm really happy to have Kaija on board in the executive team, and I want to welcome her warmly. She's a fantastic addition to the team.

I would like next to hand over to Ilkka, who will go through the market development and the financial in a bit more detail. Ilkka, the floor is yours.

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## **Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Thank you, Philippe. Let's next look at how our markets are developing in the second quarter. In the quarter, the market was actually quite similar to what we saw in the first quarter already with a couple of things to highlight. First, in the New Building Solutions, we saw gradual stabilization in Americas and Europe while the market continued to be difficult in China, actually, even slightly tougher than what we expected. The markets continued to develop positively in Service and in Modernization across all areas, with even some pickup in North America. Asia-Pacific, Middle East and Africa market continued to be the most positive overall, although there was some temporary slowdown in decision-making, for example, in India related to elections that happened during the quarter.

Then, let's look at the financials for the second quarter. Our orders received grew by 3.6% at the comparable currencies in the quarter, which was a bit higher growth than what we've seen on average during the past couple of years, and is a good result given the tough market environment. This good development was driven by significant growth in Service and Modernization. In the New Building Solutions, our orders declined clearly at comparable exchange rates driven by China. As Philippe already highlighted, our orders grew at a double-digit rate in three of our four areas when measured at comparable exchange rates. Our margins of orders received was again fairly stable year-on-year with a decline in China and a slight improvement in the rest of the world.

Then to sales. Overall, our sales were stable at comparable currencies in the second quarter. Our New Building Solutions sales declined by 11.1% as a result of the slow construction market in China. On the positive side, we saw again strong development in Service with 9% growth and in Modernization with 11.1% growth. Geographically, we saw quite a strong growth in Americas at 9.9% and in Europe at 5.8%. Asia-Pacific, Middle East and Africa continued to grow well at 6.6%, but this was below the trend for the area and the reason for this was a slowdown in order book rotation due to the, for example, the India elections that I mentioned already earlier.

In China, we also saw a slower order book rotation due to a slowness in construction market. We also managed the deliveries very tightly to ensure a healthy cash flow for the business. As a result, our sales declined by 17.2% in Greater China. What's probably worth mentioning on China is that the Service and Modernization businesses have continued to develop positively there and now represent one-third of our sales in the area.

Then moving to adjusted EBIT and profitability. As said, we had the sixth quarter of margin improvement in a row. This is important as improving profitability has been a clear focus for us. The adjusted EBIT margin improved by 20 basis points and our adjusted EBIT increased to €335 million. The positive drivers of profitability, where the better margin in our New Building Solutions and Modernization deliveries outside of China as well as the positive impact from the business mix. We also continued to see some positive impact from savings from the operational model renewal completed last year.

On the negative side, our margin declined in China as a result of the earlier seen decline in the margin of orders. And overall, the broad-based inflation increasing our fixed cost. We continued to be focused on product cost reductions, aligning our operations to the current market environment particularly in China.

Last but definitely not least, is cash flow. We had a solid cash flow from operations in the quarter at €313 million, which was a bit above last year's level. Year-to-date, we are now slightly down from previous year. Our working capital continues to be strongly negative, although now slightly less negative than in the beginning of the year. The key drivers for the year-to-date change have been the positive we always get in the early part of the year from service invoicing cycle and the increase in accounts payable where we've been working on the payment terms. Our inventories increased somewhat as a result of the challenges with logistics in Red Sea, and our accounts receivable increased slightly outside of China.

Then, let's look at the full year business outlook. For 11 out of our 12 end markets, the outlook is actually positive. Modernization markets are expected to remain very active and the outlook is positive also in Service. In the New Building Solutions, the market outlook continues to be mixed with stable outlook in North America and Europe, growth expected in Asia-Pacific, Middle East and Africa, and China expected to remain difficult. We have made couple of changes to our market outlook expectations. We now expect China New Building Solutions market to decline by over 10% in units with continued price pressure. On the other hand, we are even more positive than before and the outlook for North America Modernization market and expect that to grow over 10%.

Then to the business outlook, we have specified slightly our guidance for the year now that we have already two quarters behind us. We now expect our sales to grow 0% to 4% at comparable exchange rates in 2024, while previously the range was 0% to 5%. The adjusted EBIT margin is now expected to be in the range of 11.5% to 12.2%, while the previous range was 11.5% to 12.3%.

The drivers supporting our performance are expected to be the continued strong growth in Service and Modernization, improved margin coming through in deliveries outside of China, and a strong order book and the savings from our operational model renewal, which we saw still in the first half. The drivers burdening our performance are the decline in New Building Solutions market in China, persistent cost inflation, and our decision to increase investments in R&D and IT slightly. I would also like to mention the logistics cost as something where we see some risk related to the Red Sea situation.

I would now like to hand over back to Philippe to summarize our presentation.

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## Philippe Delorme

*President & Chief Executive Officer, Kone Oyj*

Thank you, Ilkka. So to summarize, we are happy to show another quarter of strong growth in the resilient Service and Modernization businesses, and we expect that to continue also in the coming quarters. When we look at our markets, the outlook is mostly positive while the Chinese New Building Solutions market continues to be difficult. And finally, our profitability has been on an improving track and that was the case also in the second quarter.

Going forward, we intend to stay on this positive track. I would like, again, to say a big thank you to everyone at KONE for driving these results. We appreciate it hugely.

And with that, hopefully, we are ready to take your questions if the system does work. Let's hear from Sanna about that.

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## QUESTION AND ANSWER SECTION

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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And the system doesn't work. So how we'll do this? Is that we've been getting some questions by email.

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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Okay.

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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So let's go through those and then whatever questions you might have afterwards, please reach out to Investor Relations, we'll help with all of your questions.

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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And we apologize for that.

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Yes. I'll try to group this a little bit because there's now a couple on orders, couple on sales and a couple on EBIT and I'll start with the orders. The first one is great to see better orders outside China seems to be driven by strong growth in Modernization in all regions and then solid NBS growth in Europe and APMEA, can I just confirm that the repairs business and the bolt-on M&A is not the key driver here, it's really Modernization and NBS explaining it?

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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I can confirm that. So that's the case, we have actually had a very good execution, both market opportunities, but good execution also for us to be in a good position to deliver a good growth.

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Good. And then another on orders. North American orders were weaker in Q2, what drove this?

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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I'll start, maybe you want to comment also. But in North America in Q2, yes, it was a bit weaker, but if you look at the first half, we actually are performing quite well. So particularly North America, there's relatively larger orders and they tend to be a bit lumpy between the quarters, so I would look at it more with two quarters in mind. So overall, good performance there as well.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

And great performance in Modernization.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Yeah.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

In Americas.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Good. What about Modernization margins in orders?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

I'll take it. So we continue to see actually positive development in Modernization both in order margins, but also as we're scaling the business, we continue to see profitability improving in the business. So overall, a very, very good strong quarter in modernization.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Okay. Then let's take couple of questions on sales. There was a strong drop in sales in Q2 in China versus the rate in Q1, what drove this?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

In the quarter, we've continued to see construction activity being low. If you look at the indicators for that, and as I said, we've also been very focused on cash flow, so managing [ph] our sales (00:19:44) deliveries with a credit risk in mind. So, it's a bit both the market as well as our own focus on managing the risk in the market, and I have to say that the team actually has done a very good job, as I already mentioned and part of the cash flow that we saw continued good performance there in China given the market environment.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

And just building on your answer on China, [ph] and (00:20:07) sales, there is a bit of a good news, bad news or depending on what you say. Basically, China is a bit less than 25% of our sales. But now, with actually the growth of Service and Modernization in China and the decrease in NBS, now, the sales we have in NBS in China are

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slightly more than 15%, while actually they were much more than this four or five years ago. We are more in the 30%.

So, what we are trying to explain quarter-after-quarter and actually quarter-after-quarter, it's even more true is that we are more for Service and Modernization engine in China [indiscernible] (00:20:47) China. In China, one-third of our sales are Service and Modernization, and they keep growing while indeed NBS goes down in line with the market.

So every quarter that pass makes KONE actually a more resilient model that relies on Service and Modernization, and we're going to be very [indiscernible] (00:21:09) because this is the core of our strategy. And it doesn't mean that we don't keep a fighting spirit in China on new building construction, we do. We actually adjust our cost, we are extremely diligent on cash. We think it's a – actually, it's a great way also to be a more competitive company because competition helps to be the best in our business. But, it's true that we are remodeling our business and adapting our business consciously to make it a more resilient model altogether. So, that's really important to understand.

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### Sanna Kaje

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Good. Thank you. Still on sales, the guidance of 4% at the top of – top end of sales growth guidance implies a strong acceleration in second half. What would drive this if that would materialize?

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### Ilkka Hara

*Chief Financial Officer, Kone Oyj*

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Well, first, we have a strong order book to deliver on and continue to see good opportunities drive sales growth. And we are expecting somewhat better sales growth in the second half than we're seeing in the first half, and of course, there's many parts contributing to it. In the first half, we already have very good sales growth in Service, we have good order backlog in Modernization and I have to say that outside of China and also in NBS business, we continued to see quite a good development. So all of those combined gives us an expectation for the sales development for the rest of the year. And it's also good to remember that there's certain seasonality in the business more heavily weighted to the second half.

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### Philippe Delorme

*President & Chief Executive Officer, Kone Oyj*

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Yeah.

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### Sanna Kaje

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Good. Then still continuing on to sales and now more specifically, Service sales. So you disclosed that you had 5% organic unit growth, on top of which about 1.5% inorganic growth in service base, which leaves around 2% of price mix growth in Service. So could you please break this down in terms of pure price, the effect you get from a – so the effect you get from escalation clauses, the digital effort, and then the geographical mix? So mix, pricing and then the digital.

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### Ilkka Hara

*Chief Financial Officer, Kone Oyj*

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Yeah. So first – and, Sanna, you're doing a good job conveying the questions real time, so thank you for that. So if I look at the whole Service business with 9% growth, I think I'm very happy with that. We've been now

accelerating the growth consistently from where it used to be. And that in an environment where the NBS business is actually not helping similar to previously. And yes, like you said, we've gotten the help from very good scale-up of our acquisition strategy, so really this bolt-on acquisition is contributing positively, but then mix is negative when it comes to the value we add. In all markets, actually, more residential buildings that are lower value, but also geographically the mix has a negative impact.

I wouldn't comment actually the pricing in a more detail. It's also a bit competitive topic where we want to have some magic in our side and sensitive to our competition. But overall in pricing, we've developed quite well, but definitely, there's opportunity to continue to drive pricing more aggressively going forward that we've actually seen as we've gone through the last years with inflation, that once you start to really look at it more detail, there's more opportunities to it.

Yes, digital contributes to it, but more and more, we sell our contracts with digital and physical maintenance combined. So yes, we get a benefit, but it's the package that we deliver that also then impacts how we are able to provide a better customer experience, better uptime, for example, retention is clearly higher with the connected units. And one of the highlights, by the way, behind the sales growth is that our retention is developing positively and actually very good competition balance, so all of those contributing to it.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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And Service is a people business and the attitude we have and what I've heard in the past six months is we seemed to be very strong in our customer relationship. We take our customers seriously. They provide us business and we honor that business and we are thankful and we are creating with the tens of thousands of field technicians relationship on the ground that are really important and we take them seriously.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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Yeah.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Still on Service, one more question. How is the M&A pipeline going forward?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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We continue to see the market being quite active and see good opportunities. Then let's see how those materialize, but I'm actually quite positive about the opportunities. Clearly the fact that the business is digitalizing is giving opportunities for larger companies to make it happen. And then second, what is also visible is that there's a war for talent, skilled labor and we have been a good, as Philippe was talking about the employee engagement so people actually want to be working for KONE and we are in a better position to attract talent, which is an edge compared to some of the smaller companies. And as a result, we've seen good market, active market in the M&A front.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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And it's also, I would say, weapon when we engage with those family businesses because we talk about their life and the fact that we are respectful buyer, we are demanding buyer meaning we would keep want to raise the bar

on safety, on quality, on digital, but we are very respectful buyer, and we are known for this on the marketplace and for a family business, it's very important. So the fact that we respect these people and that we onboard them with respect, we take some time to drive the right synergies is actually making the difference...

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Yeah.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

...every time in the difficult discussion we are having because these are critical decision for these people and we make a big difference here.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Good. Then switching gears to margins and profits. So margin expansion beyond 2024, what will be the key drivers of this as the backlog margin has been stable now and the operating model renewal savings finish in 2024?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

First, I'll start from the top. So, clearly the fact that we continue to see very strong growth in Service and Modernization has a positive mix impact to our results. And also strategically, we want to build scale. The fact that we want to drive growth is also helping us delivering margins. And I would say that the operating model renewal savings from the initial phase has been actually materialized now that we have a full year behind us. But one reason why we actually built these four areas to operate is that they're also able to take their commercial strategies forward, build scale in how we operate in the field, how are we get into scaling and operations in those four geographical areas which provide us opportunities to drive it further. Clearly, from my perspective, as I've said previously, we want to grow, but we also clearly want to continue to drive the profitability up so, they both are important.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

And we do quite a bit of work on the productivity, I mean, the...

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Yeah.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

... [indiscernible] (00:29:11) negotiation and sourcing and so on. So, we are working hard on that part of that house also.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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Yeah.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

A

Good. Then there's a couple of questions on the China margin and how that will flow through in the coming quarters. So price mix headwinds in China amounted to over 10% for three consecutive quarters. How do you see the phasing of the group margins development in second half? What levers will you use to offset this headwind?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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I think the first part of the question, which was the levers – the second part of the question which was the levers, I would just repeat what I just said, and all of my comments are taking into account that there's a headwind in China. And yes, price competition in the market is tough, and as I said, margins are down in orders received. At the same time, what we've actually been able to consistently now drive is [ph] product (00:30:12) cost reductions and that's something which are, if I compare the history, very high level and, of course, in this type of markets, they're needed, and the teams are working hard on that one.

That was a comment on NBS. Then you already, Philippe, reemphasized the fact that actually, we have Service and Modernization that now represent one-third of the business already and they are growing, whereas the NBS business has been declining, so the relative weight continues to go up. And relatively speaking now, Service and Modernization in China has a positive mix impact to China and that's, of course, then offsetting some of the headwinds from a China perspective.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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And to look at the bigger picture, so I repeat, our NBS business in China is slightly north of 15% but the share of the profit, because this business is at a lower margin than average is less than this 15% that I mentioned. So I hear the many questions on China. We just have to realize that every quarter that comes where actually indeed our share of business [indiscernible] (00:31:21) NBS China goes down, reduce our dependency both on sales but also on profit, and therefore the impact that we have from that part of the business is less and less as every quarter [ph] of us (00:31:34) going through, because we want to build a resilient model linked with Service and Modernization first.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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And a follow-up on what we just discussed is where is the profitability of the New Building Solutions margin in China at the moment versus your average?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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Well, I've commented China margins in total and already said that China margins compared to a group average are clearly lower than the group margins, so the NBS business is a big chunk of that decline and relative decline compared to the group.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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Good. Thank you. And still one more question related to what we've been discussing now, can you confirm that margin in orders are still ahead of P&L margin?

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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So there's not that big difference between orders margin and the P&L margin, if you look at it globally. Then due to the order book rotation, there's still a tailwind, so margins of orders that we book and the margins in the order book are – there's a positive in Americas where the order book rotation is slower. In other markets due to the order book rotation, most of the tailwind has been now used and it's more similar, the orders margin and the delivery margin for us.

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

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[ph] Is Modernization we've still (00:33:05) seen positive development pretty much?

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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Yes. Definitely, so Modernization that's a good add-on that there, we still continue to see positive coming through.

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

A

Okay. Then there is one on the market. So what are the end market drivers for North American Modernization? We upgraded the guidance or the outlook comment for that part of the market. Why, which segment is driving it?

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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Yeah. [indiscernible] (00:33:37)

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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I can start there. I guess, you were there as well, so more fresh information but – so first, I think overall in Modernization also applies to Americas, we see a lot of opportunities there. We just don't modernize as an industry [ph] enough for (00:33:56) the elevators.

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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Yeah.

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

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And what I also see and we see in the market is that there's maybe less focus on new construction and there's a need to maintain your assets, the attractive building for the tenants you have, which is impact in the Modernization activity. One way to make your building appealing to your tenants is that you have a good [ph] people flow (00:34:23).

Then second, of course, the fact that the elevators are getting older and older. If you look at the residential segment, for example, you have to modernize the equipment because there are some opportunity to make the elevator availability and quality better. I'm sure you're going to talk about sustainability next.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

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Yes. So two points maybe to complement. The first one is our growth in North America, but it's not dissimilar to many other places, is a mix of what we call volume business and major project. And the major project are more the transit system, I think we're advertising in Q1 a large order we took in the New York area, which was a transit system. We had in Q2 a few more airport type of stuff can be large malls and stuff like this. So these are actually a piece of the work that we are getting on which you need a solid track record, solid relationship. Very often, these are places where we've been servicing and there is a strong customer satisfaction and therefore, the obvious person to go modernize would be KONE because we have a relationship with those customers, and then they are all the segment. It's a bit [ph] frankly (00:35:38) across the board and clearly sustainability and behind sustainability, making sure that owners sustain the value of their assets because as said, that will be non-retrofitted, a bit old-fashioned will really not be attractive and it's a market that's very competitive today.

And it's a bit of a personal learning for me because I was in energy before, but an elevator is really important in a building. So when this elevator is not working properly and so on, it's the first thing, it's the first experience you get when you get into the building up to the lobby and if the elevators is crappy, it doesn't work well, it's [indiscernible] (00:36:18) to attract the new tenants. So it's very simple, very basic but it works and we see it clearly happening in the US.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

A

Yeah.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

A

And we can increase then the energy efficiency.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

A

Yes.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

A

Make it also cost efficient.

[indiscernible] (00:36:31)

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

A

...in North America, it's more the cost efficiency...

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

Yes.

A

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

... rather than the sustainability driving the market.

A

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

And to summarize, we see good opportunities in all of the segments, right, in North America.

A

**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

Yeah, including infrastructure.

A

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Yes, exactly.

A

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Yeah.

A

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

One more on China and then one to conclude. So you've been getting strong orders, especially compared to the market in China. Last year's second half was strong, when do you expect to see these flow through to P&L?

A

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

As I already said in the context of Q2, you see a bit similar. So there's orders where we need to then constantly look at how quickly are the construction activity progressing, which is impacting the order book rotation. And then frankly also we do manage carefully that the orders we take in that we deliver that we can also manage the risk. And if we see risk with the project reliability, then we actually are slowing down the order book rotation on those cases. Somewhat as a result of that also the order book rotation in China right now is slower than what we've seen in the past.

A

**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Thank you. Actually, there were a couple of more. I think we still have time for a couple quick ones. What was the book-to-bill ratio in China in Q2?

A

**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

A

Book-to-bill ratio in China was slightly below 1, but we're developing still there quite well.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

A

And then cash conversion in the quarter, what is the outlook for the rest of the year? Will cash conversion recover to 100% or above?

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

A

Of course, in our business, if you look at the seasonality for the cash conversion [indiscernible] (00:38:22) for example, the Service invoicing cycle impact in that. But clearly, we are – want to continue a business where there is a positive cash conversion and we see good opportunities, and we quite often talk about only the advances which are more related, especially related to the NBS business and the more we grow, the more we get advances and vice versa. But I think we also do see good opportunities to drive further improvements in other items and other businesses. So, I think there's definitely a focus on continuing to have a positive cash conversion.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

A

Thank you. And then the final one to Philippe. Now that you've been at KONE for some time, what are the key priorities for you? Is there scope for self-help in the New Building Solutions? What else can be done in Service?

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

A

Well, I guess when you look at the summary in this page, they are very, very close to our priorities. So I would say, if I have to really simplify KONE used to be a couple years ago, largely dependent on NBS in China and this is what KONE was known for. And I think Henrik started this, but we are accelerating this. We are moving the company to being first and foremost a resilient engine made of Service and Modernization, which today more than 60% of our business, and the large part of our profit.

Now, with this, we see an outside world where the market are largely positive, there's still one big market that's negative, which is China NBS, which is slightly more than for us, 15% of our sales where it was much more before. So we keep adapting ourself to the new market reality and very optimistic about the future when I look at how things are developing, we have work to do, we have work to do to keep digitizing our services, to keep accelerating further our Modernization but I'm really energized when I see the success while driving what I call scalable growth, which is a growth needs to deliver more profit and more cash.

So that's basically the game plan and I hope it's simple. Now the proof is in the pudding. I'm happy to see that we are building, let's say, our legitimacy with quarters-after-quarters of delivery, reducing this dependency on China NBS and then the rest will follow.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Good. Great. Thank you, Philippe. Thank you, Ilkka.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

Thank you.

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**Ilkka Hara**

*Chief Financial Officer, Kone Oyj*

Thank you, Sanna. Well-adjusted to the situation.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Yeah. And big apologies again for not being able to take your questions through the teleconference line. I hope I was able to cover most of what I got through e-mail and in case you have more questions, feel free to reach out to us at the Investor Relations.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

And thanks for your patience.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

Exactly. Thank you.

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**Philippe Delorme**

*President & Chief Executive Officer, Kone Oyj*

Thank you.

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**Sanna Kaje**

*Vice President-Strategy and Market Intelligence & Interim Head-Investor Relations, Kone Oyj*

And have a great rest of the day.

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