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KNEBV.HE - Q4 2025 Kone Oyj Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2026 / 8:30AM GMT

CORPORATE PARTICIPANTS

Natalia Valtasaari *Kone Oyj - Vice President, Investor Relations*

Philippe Delorme *Kone Oyj - President, Chief Executive Officer*

Ilkka Hara *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

CONFERENCE CALL PARTICIPANTS

Daniela Costa *Goldman Sachs Group Inc - Analyst*

Vivek Midha *Citi Infrastructure Investments LLC - Analyst*

Vlad Sergievskii *Barclays Services Corp - Analyst*

Andre Kukhnin *UBS AG - Analyst*

Delphine Brault *Oddo BHF SCA - Analyst*

James Moore *Redburn Partners LLP - Analyst*

Tomi Railo *DNB Carnegie Investment Bank AB - Analyst*

Aron Ceccarelli *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Antti Kansanen *Seb Enskilda (London) - Analyst*

Rizk Maidi *Jefferies LLC - Equity Analyst*

Martin Flueckiger *Kepler Cheuvreux SA - Analyst*

PRESENTATION

Natalia Valtasaari - *Kone Oyj - Vice President, Investor Relations*

Good morning, and welcome to KONE's fourth quarter results call. My name is Natalia Valtasaari. I'm Head of Investor Relations here at KONE. I'm joined today by Philippe Delorme, our President and CEO; and our CFO, Ilkka Hara. So as usual, Philippe will start by talking about the highlights of the quarter of the year, particularly focusing on what's going on in terms of strategy execution and our progress there.

Ilkka will then continue by running through the financials and the outlook, both market and business outlook for the full year. And then Philippe will wrap up, and we'll be ready for your questions. (Operator Instructions) Hopefully, we'll get very active dialogue, and that will enable as many people as possible to participate.

With that, Philippe, please.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Thank you, Natalia, and good morning, everyone. I'm very pleased to be here today presenting our full year results. Let me start by saying that our success in 2025 was a result of determined and disciplined strategy execution. Order growth was one of the key highlights of the year. Our ability to capture the modernization opportunity together with our focused efforts to grow in the residential space were important contributors.

We also delivered consistently on our profitable growth ambition. Central to this was the continuous strength and improved performance of our service business. This year, service became our largest business at over 40% of sales, making KONE more resilient than ever.

Supported by our solid operational performance and strong cash generation, the Board is proposing a dividend of EUR1.80 per Class B share, which represents a dividend yield of nearly 3%. Last but not least, I'm very pleased to report tangible results of our work in all our strategy shifts. I will share some more concrete example in a moment, but let's first look at our financial performance in more detail.

Let's start with orders. So as I said, growth momentum was strong throughout the year, and Q4 was no exception. Comparable growth of 12% is a very good outcome. I'd like also to take a moment to highlight Asia Pacific, more specifically India and the Middle East. The team has done an excellent job positioning KONE as a leader in these markets, capturing growth opportunities while also driving meaningful operational improvements.

Turning to sales. We grew just over 4% at comparable currencies, supported by roughly 10% combined growth in service and modernization. Modernization continued its strong trajectory with growth of around 15%. Service growth was somewhat moderated by the actions we are taking to strengthen performance and margin in China. And with that in mind, 6% growth is a good outcome.

Our adjusted EBIT margin expanded by 60 basis points, thanks to a richer sales mix. And finally, cash generation in the fourth quarter was solid, though lower than the exceptionally strong comparison period in 2024. So all in all, we had a good finish to the year, very much in line with our expectation.

Let's now look at our strategy execution has progressed this year. First, I want to highlight the excellent progress we've made in accelerating our digital transformation. The share of connected units in our maintenance base now exceeds 40%, up 7 percentage points from the previous year. For me, this step change in pace reflects our ability to better articulate the value of transparency and real-time data to our customers and their growing recognition of the benefits.

We also significantly expanded the reach of our productivity-enhancing tools. With the US about to go live, dynamic maintenance planning is effectively covering two thirds of our installed base. This is starting to deliver measurable improvements in field efficiency, which can be seen in the expansion of our service margin. It has also supported service growth, particularly through increased repair sales.

Moving now to modernization. I'm really pleased with the great customer response to our partial modernization offering. This is clearly visible in its rapid growth, now making it the largest part of our modernization portfolio. The modular concept resonates strongly with customers because it directly addresses their biggest concern, minimizing disruption to daily life during the elevator upgrade.

Commercial traction in the residential market has also been very strong this year, and this reflects the success of our efforts to improve offering competitiveness, especially from a cost perspective. Achieving double-digit residential order growth in all regions except China, where market challenges are well known is a very, very strong accomplishment. And we all know why this matters.

Strong residential orders today secure future service business and residential is a highly attractive service market for us.

Now let's take some example of our strategy in action with customers. Let's start with China, where we are providing a full scope of digital service solution to Nanjing Golden Eagle World, a landmark multi-use complex in East China. Transparency, actionable insights and the ability to elevate tenant experience with proactive communication were cited by the customer as a key benefit.

Turning to the Americas. We have recently won a partial modernization project for 22 units at the American Airlines Center, a premier sports and entertainment arena in Dallas, Texas. Our ability to adapt the installation work to minimize disruption during the busy game season was key in the world.

So staying with modernization and turning to Europe, where we have a great example of how sustainability is influencing customer decision. In this project, the original plan was a full-scale modernization. However, by highlighting the opportunity to reduce emissions and energy use by grinding only the outdated components, the customer chose a partial modernization instead.

And last but not the least, India, where, as mentioned, the team has delivered an outstanding quarter, very much supported by our focus on driving growth in residential. We have one particular prestigious win with the order to supply a wide range of equipment to DLF premium residential development, Privana, under construction in Gurgaon near New Delhi.

Let's now turn to sustainability, where we have a lot to be proud of. As you know, we track our performance with the sustainability index, and I'm happy to share that we exceeded our targets in 2025. A key driver was a stronger-than-anticipated increase in regenerative drive sales, which contributed to a reduction of nearly 13% in scope 3 emission from the previous year.

Another important contributor was a step-up in cybersecurity performance, a core strategic priority as digitalization accelerates across our products and services. One measure of our progress is our Bitsight rating, which this year placed us in the top 1% of our global engineering peer group of over 24,000 companies. This is a fantastic achievement and testament to the dedicated work of our cybersecurity team.

I'm also very pleased with the external recognition we have received, most notably our inclusion in the Corporate Knights ranking of the world's most sustainable companies. I want to highlight that sustainability is not just a set of commitments for KONE, it directly drives our business performance.

Our impact revenue grew over 20% last year, and today, it represents over half of our overall sales. This is an excellent indicator of how our strategy is progressing. Digital service solutions, partial modernization and regenerative drives all contribute to climate impact mitigation and thereby to our impact revenue.

So as said, we have a lot of great example of strategy progress from 2025. And now, of course, our focus is on maintaining this momentum.

Let me next hand over to Ilkka, who will go through the market development and financials.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Thank you, Philippe, and also a warm welcome on my behalf to this fourth quarter result webcast. Let's start by taking a look at how our markets have developed during the past few months. The elevator and escalator markets were again resilient in the fourth quarter. In services and modernization, the market environment was very positive, and we saw growth in all areas. In New Building Solutions, the picture is more polarized.

The well-known challenges in China construction once again drove significant decline in elevator and escalator market activity. In contracts, the activity increased in all other regions.

Looking at the chart, Americas growth stands out. This is largely due to the last year's relatively low comparison point. What is more relevant is the sequential trend, which remained quite stable, a solid outcome given the broader geopolitical environment.

Let me next go through our financials in more detail, starting as usual with our orders received. As Philippe highlighted, the positive momentum seen in previous quarters continued in the fourth quarter. Overall, the orders received increased by 12.2% at the comparable currencies, and growth was broad-based across the portfolio. With the exception of New Building Solutions in China, all business lines and regions contributed. We also had a very strong quarter in major projects across several geographies.

From a geographical perspective, growth was strong in Asia Pacific, Middle East and Africa. The over 20% growth in both modernization and NBS in this area highlights our ability to effectively capture opportunities in this rapidly expanding market.

From a business line perspective, modernization continued to grow at a healthy double-digit rate. New Building Solutions followed the market trends with pressure in China and growth elsewhere. Our orders received margin remained stable year-on-year. Pricing conditions in China continued to be challenging, but this was offset by more stable orders margin in other regions and our product cost reductions.

In terms of sales, we had a good end to the year with a 4.3% comparable growth in the fourth quarter. Looking at the development by business, continued good growth -- good order book rotation in modernization was the highlight. This delivered 15% sales growth in the quarter. In New Building Solutions, China remained a drag, although this was partly offset by growth in other regions.

Service sales grew by 6%. Outside of China, growth was in line with our targets. While in China, sales were slightly below last year. We also saw some negative impact from separation of our doors business.

Shortly on China. As discussed in previous quarter, our priority there is to safeguard margin and cash flow across all of our businesses. In service, this has meant reassessing our contract base and taking targeted actions to strengthen the performance. I'm pleased that these actions have delivered the intended results.

Looking at growth tailwinds. Our maintenance base continued to expand and pricing developed favorably. Here, we saw support from sales and operational excellence performance initiative, where we have focused on professionalizing our pricing and driving repair sales. This is closely linked to our digital transformation. As Philippe explained, by improving field efficiency, we free up time that can be proactively directed towards repairs. For me, this is an excellent example of tangible benefits of digitalization.

Then moving to adjusted EBIT and profitability. Let me start by saying that I'm pleased that we have continued to consistently deliver profitability improvement, moving steadily toward our midterm target of 13% to 14% adjusted EBIT margin.

Our margin expanded by 60 basis points in the quarter, taking adjusted EBIT to EUR402 million. Looking into details, our biggest headwind continued to be margin pressure in China. On the positive side, the business mix continued to be favorable.

What I'm happy about is that service margins continued to improve, supported by repairs growth and our efforts to take more strategic approach to pricing. Product cost reductions has also continued to -- contributed to profitability and will continue to be supportive in the coming year.

Then turning finally to cash flow. We had a strong year in terms of cash generation, supported by growth in operating income and changes in working capital. For the full year, cash flow from operations rose to nearly EUR1.8 billion with a solid quarter-by-quarter development.

Looking at the working capital in more detail, FX swings had a bigger-than-normal impact to this year. If we adjust for negative currency impact of approximately EUR60 million, working capital improved moderately. A key driver was the increase in advances, and I'm also pleased with the work the teams have done in driving collections.

Then let's look at how we are thinking about '26, starting with the market environment. Our outlook for the year is very consistent with how activity developed in '25. We see attractive opportunities in all parts of the world. This is particularly true in modernization and services, where we expect markets to remain very active in every region.

In New Building Solutions, we expect the decline to continue in China. The lower rate of decline is mainly due to the comparison period rather than the meaningful easing of the underlying pressures.

Outside of China, we expect growth, slight in Europe and North America and clearly stronger in Asia Pacific, Middle East and Africa. So overall, operating environment looks to be favorable this year. Of course, the geopolitical environment continues to be a risk, and we're keeping a close eye on how this could be reflected into market activity and potentially our financial performance.

That's a good bridge to our business outlook for the year. Let's start by going through the headwinds and tailwinds. As mentioned, the market conditions in China remain under pressure. So this is burdening our performance as is the wage inflation. At the same time, our order book, combined with a strong outlook for service and modernization provides a healthy foundation for growth.

Beyond the resulting positive mix effect, we also expect tailwinds from increased contribution from our performance initiatives and from the product cost reductions achieved during '25.

So with all this in mind, our guidance for '26 is for the sales to grow 2% to 6% at the comparable currencies and adjusted EBIT margin to be in the range of 12.3% to 13%. This keeps us firmly on track towards achieving our midterm financial targets.

With that, let me hand back to Philippe to close the presentation and open the Q&A.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Thank you, Ilkka. So before I move to the summary, let me take a few moments to highlight our priority for 2026. First, we will continue driving the excellent progress we've made in digital. We'll push for even higher maintenance-based connectivity and focus on further leveraging the productivity gain we are seeing in the field. In modernization, it will be important to build on this year's strong momentum in partial modernizations with a particular emphasis on reducing installation time.

We've made very good progress in our initiative to drive performance through sales and operational excellence and improved procurement efficiency.

The first results are already visible in our financials, as you heard from Ilkka, now we must maintain and, in some way, accelerate this momentum to ensure we deliver the intended bottom line. And finally, to support all of these priorities, we will continue to strengthen a high-performance culture across the organization. This will help us drive greater precision and discipline as we drive our business transformation forward.

So to wrap up, we can be pleased with what we achieved in 2025. For me, most important was the great progress we've made in strategy execution. This was especially visible in the acceleration of our transformation to an even more service and modernization-driven KONE, supporting our performance and further strengthening our resilience.

Finally, both last year's results and our guidance for 2026 show that we are advancing well towards our midterm financial targets. So a big thank you to all KONE teams for an outstanding commitment once again. Thank you all for your attention, and I suggest we now move on to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

But maybe we can start, you talked about the tailwinds from the operational actions that you're doing. Can you help us out thinking in 2026, the balance between how much should we expect in savings versus what we will have in, for example, raw materials? Will that be a headwind? Where -- how should we think about that balance? That's the first one, and then I'll ask a quick one afterwards.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Okay. Maybe I'll take at least the start of it, and Philippe is quite excited about this, so I think you will add. So we are expecting a slight headwind from raw materials in '26. And -- then separately, so we have, as we said, been pleased how we've been able to now get both the performance initiatives ongoing. So the focus on purchasing as well as on the sales and operational excellence.

And actually, in '25, we did see both contributing positively. But like we said already when we started the new strategy that we expect an increasing impact from the performance initiatives through '25, '26 and '27 contributing increasingly in those years. And we are guiding for improvement in profitability. So it's also visible in our guidance.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Okay. So we will exceed any raw material. And then the second question is, why haven't you increased the dividend this year given you obviously have earnings growth, you have strong balance sheet. Can you elaborate a bit on how you're thinking about shareholder payback and priorities there and yes.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Well, first, it is, in my mind, a strong dividend that the Board decided for the year or a suggestion for dividend for the AGM. And we've had a strong performance, and we also do value a strong balance sheet. So at the end, this was a decision this year. And I think it's a strong dividend and a good yield as a dividend yield as well.

Operator

Nick your line is open.

Unidentified Participant

The first one is just some clarification on the guidance. I mean the low end of the growth guidance is at 2%, and we had 4% growth in 2025. And this year, it feels like you've got some very good growth tailwinds, modest, very strong and a bigger share of sales. NBS outside of China looks good. NBS in China is an ever-declining share of sales.

Service growth is strong. So it just seems very unlikely that you would kind of end up anywhere near that 2% growth number. So I was just hoping you could maybe give some comments and some sensitivity around the growth guidance there, please.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So of course, like I said already in my remarks on the guidance that the uncertainty in geopolitics continues to be high. Then if I look at KONE business, we have a good order book in our NBS business, like you said. Uncertainty is more around how our customers are taking the projects forward. And it's good to note that one part of the good growth in '25 was related to major projects, which clearly have a lower order book rotation than the volume business. In modernization, we still are accumulating orders throughout the first half that we will deliver in the year.

So it's more a question of how good are we executing against our target of more than 10% growth in modernization. And indeed, in services, it's more of a consistent good growth business. So those are the moving parts in the guidance as we see it. It's early in the year, and we see that this is a good range of outcomes for the business.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

And it's aligned with our long-term targets -- or midterm targets, sorry.

Unidentified Participant

Great. And then just a related follow-up regarding service growth. So 6% in the quarter, still a solid number, but a little bit slower than the dynamics that we've been seeing before. So, I was hoping you could, a, just comment on what you're seeing in the quarter; and b, obviously, you've done a really good job over the past couple of years of aligning pricing with the customer value that you've been delivering.

So I'm just curious to hear your thoughts about how you see this pricing dynamic going forward and whether there was almost a one-off element in the past couple of years as you sort of raise prices on existing contracts and whether it might be a little bit less of a tailwind over the next two to three years?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

I'll try to comment on all of the components. But first, on the growth of services. So we target close to 10% growth in services business. And if you look at the full year, we're actually quite well in line with what we have guided. Then in the fourth quarter and maybe also in the second half, we had an impact from actions we took in China.

As I said, we are prioritizing all of the businesses around cash flow profitability. And we reassessed our service base based on those priorities. And that's something where we saw a good impact to our performance, but it did slow our service growth as an overall down.

And we also have been very explicit that we want to separate our doors business to a separate business. And as that separate doors business is reported under the services. And during the separation, of course, it takes some management bandwidth as well as system changes, which impacted the growth as well. So all in all, I think it's quite in line what we targeted, excluding these two actions we've taken. Then on pricing, so I'm actually very pleased that we've now been able to take much more strategic, much more analytical approach to pricing.

And we've seen both pricing as well as our repair volumes growing very nicely as a result. And I don't see that this work has been done yet. I think there's further opportunities going forward. I don't know if you want to comment on services more.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

No, I would say more broadly on services, there is no reason for us to change the strategic direction we're having, which is we want to differentiate with digital, both on the efficiency side and the customer value. We see it working very well. We were planning -- we are growing very well in three of our four areas. We made a choice in '25 to prioritize differently in China to privilege cash margin. And then picking the right customers.

We've done exactly what we wanted. We were expecting this pruning of the portfolio and therefore, the impact on the top line. We see a very strong momentum in the 4 other area. Now we are back in China much more on the growth side, but growth and profit, and we've delivered better profit in China in service. So we are sticking to the plan, and we are very confident in where we want to go.

Operator

Vivek Midha, Citi.

Vivek Midha - *Citi Infrastructure Investments LLC - Analyst*

Hope you can hear me well. My question is really following up on the China service story. Within the slight decline you have in the fourth quarter in China, would you be able to indicate whether you saw units under service still growing in the quarter with the decline driven by price mix? Or did you see a decline in the quarter in units under service?

And the follow-up is you commented that the actions in China have seen the intended results. I'm curious to understand, should that effect then not continue in 2026 and onwards? Or given that you took the actions in the second half, should we expect some carryover effect on the China service growth rates in the first half of '26 before the comps ease up a bit again?

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Do you want to start?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

I can start. So in services in China, so there's two things that you need to take into account. One, yes, there is still an add-on. The market is growing as we -- as there are NBS units being installed and that's adding to the maintenance base. And we take a fair share of that with our good NBS business there.

At the same time, we really took these targeted actions to look at our customer base with these two targets. And we continue to do so, but I don't expect a similar one-off impact going forward. It is more about working with each of the customers like we've done in other regions to find the right strategic pricing approach, drive repairs and so forth. So it is more of a one-off impact. But then as we see the market in NBS declining, so that is having an impact on the growth rate of the service unit base in the market.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

And just to complement, every time you think about our service business, it's not as simple as number of LIS time the price. So that's one part of the business. The other part is really the repair business everywhere, including in China. And we believe that in China, specifically, we can do much better when it comes to our spare and our repair business.

And we are working on packaging repair that will feed the customer demand, plug this with much more digital marketing to be responding to our customer request, and we see actually a very good traction here.

So it's -- and for the rest, I would not repeat what Ilkka said on doing one year of really pruning our portfolio, which was much needed and which we believe has been largely done.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

One more addition. So if I still take a larger content -- context, and it's also true in China, the modernization as a source of new elevators, the maintenance base is increasing its impact. So the more we go, especially on the parcel modernization, modernized equipment, which is not in our elevator base. It is maintained by somebody else. Those units actually then convert to our maintenance base with a very high conversion as a result.

And as we grow the modernization business, this will be more and more important source of new elevators to the maintenance base compared to the NBS business.

Vivek Midha - *Citi Infrastructure Investments LLC - Analyst*

I don't know whether I might be able to do a quick follow-up on that. But just on that last point, we know that there's been some pressure on conversion rates in China given the competitiveness of the market. Within the modernization business that you had in China and the growth there, is the conversion rate on those modernizations still holding up relatively well?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Yes. Yes. Simple answer.

Operator

Vlad Sergievskii.

Vlad Sergievskii - *Barclays Services Corp - Analyst*

If I can follow up on service growth. Would you be able to give us some idea of what your 2026 growth guidance implies in terms of service growth? Does it imply an acceleration versus 7.6% growth you did last year? And also, how should we think about this 10% -- or close to 10% growth over the strategy period? Does it mean that to achieve this growth, you would need to go to low double-digit growth in 2027?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Sorry, Vlad, can you repeat the last sentence? I failed to capture that.

Vlad Sergievskii - *Barclays Services Corp - Analyst*

Absolutely, Ilkka. In terms of your target for the strategy to grow that close to 10% your service business, does it imply that 2027 number should then be low double digits to achieve this close to 10% growth?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Got it. So first, I think this close to 8% rate that we got for the '25 year is actually a good number. We took some targeted actions and -- but in other areas, we actually saw the growth to be very much in line with targets. Then going forward, we don't give guidance by business line, but we repeat what we've said, we target to grow on close to 10% rate in services. And for example, this China action, we don't expect that to continue as one-off impact.

So maybe that's implicit answer to your question.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Or the best answer we have.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - *UBS AG - Analyst*

Can we start with just helping us to size the China business in terms of profit contribution? Could you give us some idea where it sits overall now versus the group or where the kind of margin level is for China? And within that, clearly, New Building Solutions margin has declined. Are we kind of still positive over around mid-single digits? If you could help with that, that would be great.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So indeed, I think the first comment is that the contribution of China is declining as the revenue has declined last year and also margin declined slightly last year -- declined further slightly in last year. And our NBS business in China continues to be profitable, and we aim to continue that.

At the same time, we see the movement to services and modernization, which is now 40% of the business, continuing to happen. And the target is to get to 50-50 as soon as possible. And both services and modernization are with a higher profitability than NBS in China.

And that's why the move -- strategically, that's a growing market, but also it has a positive impact to our mix -- profitability mix.

Andre Kukhnin - *UBS AG - Analyst*

Sorry, but is that service and modernization of China has a positive mix effect to the group?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So I was talking -- you asked about China and about China. So in China profitability, the move to services and modernization has a mix -- positive profitability mix impact for China.

Andre Kukhnin - *UBS AG - Analyst*

Got it. And if I may just follow up on the pricing questions that have been asked specifically for the, I think, price increases that you're seeing from suppliers that are based on copper and silver and a few other component inflation. Do you have price escalation clauses that you can action to pass that through on the new equipment? Or does that require a specific kind of pricing action one by one with the customers?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So now we see a slight headwind in our raw materials, and it's those base metal copper being the number one for the year '26. And it's not a bigger headwind, and that's why I'm not calling out the number. It's a slight -- some tens of millions of headwind. And then -- it is, of course, relevant information when we price our new orders for our customers, and we take it into account. And with some of the contracts, we have escalation clauses for bigger raw material swings.

I would not say that in the grand scheme of things, this is a bigger swing and would trigger those clauses.

And a material part of our orders that we have booked don't have those clauses in place. But right now, I think the mix between product cost actions as well as the raw material impacts is something that is still a positive. So we are able to see more product cost reductions than the raw material increases. And I said orders that we booked in fourth quarter had stable margins more because of the price impact in China versus the product cost. In other places, it was more neutral.

Operator

Delphine Brault, ODDO BHF.

Delphine Brault - *Oddo BHF SCA - Analyst*

We'll go one by one. First, in your comment, you said that partial modernization now represents the majority of your modernization activity and that it grew twice the rate of full replacement. Can you help us understanding by how much this mix contributed to your margin improvement? And are we right in assuming that the modernization margin is not that far away from the group margin?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Before I let you go on partial modernization, just on the fact. So yes, the movement to partial modernization has a positive impact to our profitability within modernization. And the aim for modernization is to continue improving its profitability. And as I said in the strategy, the aim is that it's not dilutive to our margins while it grows and becomes a bigger and bigger business. But do you want to comment the partial modernization?

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Yes. It's -- I mean I'm somewhat new to this industry. I've been only two years in this industry, but I'm fascinated to see that actually the industry was not responding to the customer needs, which is when you have a running building, the first point that matters is time.

And what we are doing is just responding to customer needs and say, you know what, instead of having this project in three months, we are going to make that project in one to two weeks. We are not going to do everything, but we're going to do what matters.

And once that work is done, the elevator is connected, and we can actually guide for the coming five years what really will be essential for you, Mr., Mrs. customers.

This value proposition is working very well. By the way, from a financial standpoint, the other benefit is that it brings a very good order book rotation, fast order book rotation and the conversion rate to service is very good. So from a model standpoint, it's a great business. And what I like is that it's a business that corresponds to what our customers are asking for.

So we are pushing as fast as we can to really organize ourselves to be extremely efficient in delivering this so that we -- success drives success, and we really make our name, and this has been working very well in the past two years as being the best company to drive fast and partial modernization.

Delphine Brault - *Oddo BHF SCA - Analyst*

And then it's now -- no, coming back on your margin guidance. What do you need to reach the upper end of your range this year? What are the main assumptions between your 12.3% and your 13%?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Of course, a big part of the margin is related to the revenue guidance as well. So the more we are able to deliver the revenue on the top end, the more we will get also leverage on the profitability part. Then second part is around the revenue mix. So again, the more services contribute, the higher end we are at the guidance and modernization will help. And of course, the mix is more on NBS, then it is something we need to tackle. And -- that's number one.

Number two is related to our performance initiatives that are, of course, contributing positively to our margins. And I would want to emphasize the fact that in sales and operational excellence, really what we're looking for is the lowest level, the branch, the region that is close to our customer, how they're able to deliver to our customer needs and how are they able to manage the business to produce profitability, pricing going forward.

And I think there, we are seeing very good -- the best branches that have really adopted it first, very good outcomes. So that's naturally contributing to the profitability positively. Maybe those are the key variables, I would say.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

So the question is how fast we can strike on all these cylinders to make them all align and contribute to the upper part of our guidance.

Operator

James Moore, Rothschild and Co Redburn.

James Moore - *Redburn Partners LLP - Analyst*

I wondered if I could circle back to Andre's question about Chinese profitability. Would it be possible to quantify where we really are on the overall Chinese margin now or the difference versus the group and to try to quantify the difference between NBS and service and maintenance numerically so we can think about, a, the effect to the group that is now less as China declines; and b, the impact of the positive mix within China? That's really the first question.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Well, first, over 90% of our profits are services and modernization. So it is really if you -- we look at the profitability of the company, it is how we are able to grow and manage those businesses. And that's really why we talk so much about services and modernization. So that's a big change in the last years. In China, now the share of revenue has declined for the total company, and its profitability is below the group average.

And I said already that it declined further in '25. And the more we can make services and modernization be a bigger part of the revenue in China, that's the way for us to then turn the margin also towards stable and growing again going forward.

And we don't do segment reporting. So it's more the qualitative comments we're giving, but it's clearly below. And NBS is the lowest margin business we have in China and services and modernization are not that different in margin in China.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

And the last point I would complement is our cash generation is China is extremely healthy, which is a point where we think we really stand out competition, which is a point that actually leads us to move away from customers. But in the end, we believe cash is key. And we want to make sure that we translate all the hard work we are doing on the ground to money in the bank or in our bank. And we are actually on that side, looking at profitability and EBIT level, but also in cash generation. And that part is actually very, very healthy.

James Moore - *Redburn Partners LLP - Analyst*

Maybe I could just go back to the service growth and say it, I didn't really understand the answer you gave earlier about the pruning being a single quarter impact, having covered companies for 30 years. Typically, when revenues drop on pruning, you've got four quarters of impact before it comps out. Can you help me understand why that's not the case? And is it possible to talk about what the speed of asset under management percentage growth in units was in the quarter, please?

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

That's not what I said. So I said -- so I think Ilkka and I said that we worked in 2025 on pruning our portfolio, but we worked on the full year 2025. So we started in Q1, and we've seen the impact coming as we were working on it. But -- and we think we've done the essential work to move away from customer either would have low profitability or negative profitability or customers where we believe we had no chance to be paid. So we think we've done the biggest chunk of the work that's needed.

Then we've worked within our pricing priorities everywhere in the company looking at our lower profit margin risk profile on cash, but we think that the biggest chunk of the cleaning work that needs to be done in China has been done.

James Moore - *Redburn Partners LLP - Analyst*

That's great. And anything on the asset unit growth speed in maintenance?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So we see in maintenance, the growth. So I've said it earlier. So we have three components when we look at the growth. First is really the repair volumes. How can we continue to drive repair volumes.

And that's why the digital part is so important that we can free up capacity to drive that repair volumes to be both sold and installed. Second is related to pricing and value. And value to me is including the digital offering we have facing our customers. So how do we differentiate to get the maximum price and actions we take. And then third one is the units.

In units, last year, we had lower growth mainly due to China. In other regions, we've actually seen quite a good development. And we don't see that our strategic direction in terms of unit growth is changing.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

The only thing we could say as a change is stronger contribution coming from mold and partial mod and a bit less coming from NBS. So in that regard, the whole model of our business, which was a lot of selling elevators and driving the service is changing a bit to actually trying to get a better retention with digital and moving actually a part of our modernization business towards lift in service and expanding our service base.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

And then lastly, I just wanted to comment because we started with China. You see that China service market is growing at a low single-digit speed. It is also a good signal that we are seeing and are expecting going forward that our service growth is higher in the three other areas as a result. And yes, we will grow in China as well, but really the growth rate is higher in the three others given the dynamics.

Operator

Tomi Railo, DNB Carnegie.

Tomi Railo - *DNB Carnegie Investment Bank AB - Analyst*

This is Tomi from DNB Carnegie. Two questions, if I may. Coming back to the NBS profit contribution, you mentioned over 90%. Any further comment? Is it 95% or is NBS contribution, how much less than 10%, if I can formulate it that way?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

It's less than 10%. That's -- I won't go to more details, but it's less than 10% and it's -- the modernization service is more than 90%.

Tomi Railo - *DNB Carnegie Investment Bank AB - Analyst*

And then another follow-up. If you could just still state clearly if China NBS is lower than global or above than elsewhere?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

It's slightly above elsewhere.

Operator

Aron Ceccarelli, Bank of America.

Aron Ceccarelli - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I have a question on modernization, specifically in Europe. At your CMD in 2024, you highlighted the European market for modernization to be probably the largest opportunity in terms of units. And I think today, you're guiding for slower growth compared to other regions. So I was wondering why that. And also if you can discuss a little bit the role of subcontractors in modernization business as the modular strategies speeds up would be useful.

And I will go with a follow-up after your answer.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

I just clarify before you take the modernization. So we said the market is expected to be growing at 5% to 10%. It does not mean that we could not grow faster than that, and that's what...

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Then I mean, we are -- in Europe, as everywhere, we are ramping up our actions on modernization. We are doing actually pretty well on at this point, full modernization and partial modernization of our own installed base. And now we need to do better on partial modernization on our -- not on our installed base. So the market -- we have a lot of questions like what is the limit of the modernization market. And my answer is always the same.

There is -- frankly, at this point, it's such a big ocean that there is very little limit.

Now on your point about subcontractors/ISPs, independent service providers, we see them, frankly, as much as competitors and in some case, partners because actually, they cover markets that we don't always very well covered.

So we actually see an opportunity to work with them in a targeted manner in places where we don't have the geographic coverage to actually bring our technology. Very often, these companies are not very good in digital, where actually we bring the whole digital gear very well. So we still see an opportunity of plenty of new business model, leveraging more companies that are not strictly KONE to address much better this very vast market.

Aron Ceccarelli - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And my follow-up would be on your cost structure. Clearly, when I look at one of your competitors have done a very remarkable job on cutting costs. And I believe you have a fairly new head of procurement. And when I look at your SG&A on the other hand, you also have higher SG&A as a percentage of sales compared to other peers. I was wondering, could you perhaps provide a little bit more granularity on what you can actually do on the procurement side now and what opportunities are on SG&A as well.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Well, I think on procurement, indeed, we have a new -- not so new. Michelle has been with us now for 6 months. But clearly, what we see is we have an opportunity to professionalize our teams, upskill our team and put purchasing at the right level of attention within the company, which is exactly what we are doing. We actually started this work like before Michelle came in, but we see now an acceleration. And therefore, there is an opportunity to drive better purchasing productivity.

On SG&A, you're right. We are -- we have more costs relative to sales than many of our competitors, and we have to do a stronger job of driving efficiency, and we are working on it.

Operator

Antti Kansanen, SEB.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

It's Antti from SEB. I have two questions, both on the service growth. So I'll start with the mention that the modernization, partial modernization is emerging as a driver to the maintenance base growth taking over from the NBS. Is this something that you have already been (inaudible) on a significant manner in, let's say, '24, '25? Or was this a question more going forward that it will start to accelerate as an impact?

And how does it work? Is it elevators that are too old to be relevant in your maintenance space? Or are you converting non-KONE brands through this modernization?

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Maybe I can take it. So just correction, I've not said that partial mod is taking over NBS. I'm saying, I love competition, and I'm telling to the modernization team, raise the bar so that you become a stronger contributor to service. Now in size, today, this is already significant to very significant. Now are we at the level of what's coming from our NBS business?

No. But when you look at the big parameters, if we keep doing the good job we are doing on partial modernization, this indeed will become very mainstream into driving more LIS.

And on your question, is it more KONE unit, non-KONE units? My assessment today that we do a decent job on our KONE units. Are we perfect? No. So it's okay to be perfect and raise the bar.

On non-KONE units, we can really do much better. And by the way, I don't think the industry is very good overall. So the point about responding with time to do the job and really compress the time by being very optimized is one thing where the industry is average. It's up for us to be very good.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

Would you guys say that in the past few years, which of the contribution has been, let's say, more relevant on offsetting the decline impact from NBS, your increased acquisitions or conversions from the modernization side?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

I don't -- so we'll come back to this partial modernization in more detail, but it is starting to be more and more relevant. And of course, for us, it is very compelling. So we don't put capital in play and actually get a modernized -- modern digital elevator as a result of the partial modernization. And actually, it's quite a fast turnaround business. So it is -- from that perspective, return on capital is very good.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

Okay. And then the second was just a clarification on the pruning work you talked about in China having been over. So do I understand correctly that starting from Q1 this year, there will not be any more negative sales growth headwind in terms of the actions have done and the impacts have already been seen on the P&L?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So we took the actions throughout the year. And I said it was more visible, and that's why I called it out in second half of last year. And we expect now a more normal business. It doesn't mean that we would not be focused on profitability and cash flow going forward as well. But I think this was more of a targeted action.

Operator

Rizk Maidi, Jefferies.

Rizk Maidi - *Jefferies LLC - Equity Analyst*

I just want to go back to this modernization conversion into sort of new installed base, I think, was the previous question. I was wondering if you could -- I thought this was a '27, '28 sort of impact, but you start to see it in China, if I heard you correctly. Maybe can you help us sort of quantify this perhaps in the last few quarters, when you look at your modernization sort of growth, how much was it on KONE units on non-KONE service units or perhaps even on the installed base growth, whether you could actually have a contribution from modernization conversion, if I could call it this way, I'll stop here.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

So first, the conversion rate of modernization is actually very high. So that's why it's such a compelling place.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

And maybe to explain why because when you sell a new construction elevator, you sell it to the contractor. And then the building goes on, there is all kind of things that can happen up to someone who is now in charge of dealing with elevator, which is very often not the contractor. When you deal with the modernization and even more a partial modernization, the person who is buying the partial modernization is a person very often will operate the service.

So if you do a good job and actually, if you really go beyond what's possible in terms of time and customer satisfaction, there is little reason that, that customer is not going to stay with you for service, especially when we at KONE bring in the package the connectivity that gives transparency, predictive, remote capabilities. So sorry, close the bracket, but I think it's important for all of us to really understand what's going on here.

Sorry I cut you.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

That's fine. And then it's -- we've increased our modernization business, grown it. We've also increased the proportion of partial modernization. So it's in China, but also outside of China, more and more meaningful contributor. But still NBS is a bigger contributor.

But in the future, it could be other way around.

Rizk Maidi - *Jefferies LLC - Equity Analyst*

But at this stage, you're not willing to quantify how much of your mod growth is on KONE units versus now?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Most of them are still KONE units at this stage.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

I think it's -- I'm repeating on modernization. It's a blue ocean. So it's a place where -- I mean, there are 10 million units in front of us, and the industry is modernizing a fraction of this, a real fraction. If we look at the number of -- I think we've released that figures, a couple tens of thousands of units every year. So we are -- every time the team is coming saying, oh, we are so happy we did that grow, yes, you can -- I mean, we can do better. And it starts by listening to our customers and responding to their needs.

Rizk Maidi - *Jefferies LLC - Equity Analyst*

The second one is we've seen -- if you think about connectivity, it started quite slow, I think, back in 2015, '16. Then you ramped it up quite quickly. I think the number this morning was above 40% of the installed base being connected and you improved that by 7 percentage points. Just thinking what's the blue sky here? How we should we think about this improvement over the coming years?

The installed base is still quite old and my understanding, if you want to have good readership or good value from connectivity, you have to force modernization or partial modernization. Just thinking about the blue sky here, basically. And the benefits as well to your business.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

It's one of my favorite topics. But when you say, okay, we started, we increased and then we plateaued and now we are reincreasing. What has been the difference, focus and leadership. And very easy to say, very hard to do. And I think where I'm very happy with the team is we've managed to mobilize the company and make it clear for everyone in the company that this thing is a game changer and therefore, a sense of urgency.

It's very hard to copy. And I think we've managed to bring that focus in mind. So what is our ambition to have all our elevators and escalators connected.

So is it possible tomorrow next quarter? No. But I think everyone at KONE understand that this becomes the norm that we want to be digitally enabled on the field with apps that make us more efficient and that once an elevator is connected, it brings transparency, meaning everyone knows and is on equal base to understand what's going on. We get predictive. We get 800,000 elevators connected where our AI is scrolling and sending service need to our field technician to correct the problem before they will happen.

We think we can filter up to 80% of the issues before they would happen. And then when the code allows us, we can actually remote rescue people who are being entrapped, which is a big difference. So where is the limit? At 100%. Are we going there next quarter?

No. Is it hard to do? Absolutely, yes, because it touches the DNA and the culture of the company, but I'm really happy to see that step up, and we are very committed to that transformation.

Operator

Martin Flueckiger, Kepler Cheuvreux.

Martin Flueckiger - *Kepler Cheuvreux SA - Analyst*

I've got two, and I'll start off with the US. According to your assessment, market in the Americas was up significantly in Q4, which seems counterintuitive given the fact that we had the longest US government shutdown in history, but also if you look at indicators like ABI and so on, I was just wondering -- and also, by the way, your outlook for 2026 is still positive, but clearly much slower than it was in Q4. Just wondering what the issue was or what the narrative was for the strength in Q4? That's my first question, and I'll come back with the second one.

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Yes. So as I said, Q4 market in the US was impacted by the low comparison point the previous year. If you look at it sequentially, it's more stable and the full year is a slight growth for the market. We're expecting similar environment to continue in '26.

And yes, there are many uncertainties also in US, also outside of US, but that's our best forecast for the market activity.

Martin Flueckiger - *Kepler Cheuvreux SA - Analyst*

Great. And then my second question is on some of the financials. I guess that's for you, Ilkka. I was just wondering, net financial results seemed weaker than expected. Is that FX related?

And what is the reason for what seems to be a higher-than-expected income tax provision in Q4?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

Yes. Thanks for asking. So we actually had a one-off item in taxes in the fourth quarter related to our intercompany legal structuring. And we don't expect that to repeat. So it's -- the expected tax rate is fairly similar, this 23.5% going forward.

So it is a one-off impact that caused it.

Martin Flueckiger - *Kepler Cheuvreux SA - Analyst*

Okay. And in the net financial result, how large was the FX impact?

Ilkka Hara - *Kone Oyj - Chief Financial Officer, Member of the Executive Board*

The FX impact -- let Natalia come back to you on that. I think we have it also in the deck -- behind the deck, so I don't say incorrectly.

Operator

That's all the time we have for Q&A. I will now hand it back to the host for closing remarks.

Natalia Valtasaari - *Kone Oyj - Vice President, Investor Relations*

Excellent. So, thank you, Philippe. Thank you, Ilkka. A special thanks to everybody who followed us online. Great questions, lots of interaction there.

So we appreciate that, your interest and your time. And if there are follow-ups, I'm happy to answer them. I will certainly come back to you, Martin. And with that, yes, have a great rest of the day and weekend ahead.

Philippe Delorme - *Kone Oyj - President, Chief Executive Officer*

Thank you, everyone.
