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Kone Oyj (KNEBV.FI)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Natalia Valtasaari

Head-Investor Relations, Kone Oyj

Good morning, everyone, and welcome to KONE's Third Quarter Result Webcast. My name is Natalia Valtasaari. I head up the IR function here at KONE, and I'm very pleased to be joined by our President and CEO, Philippe Delorme.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

Good morning, everyone.

Natalia Valtasaari

Head-Investor Relations, Kone Oyj

And our CFO, Ilkka Hara. As usual, we'll start by walking you through the financial highlights of the quarter, what we're seeing in the business and what we're seeing in the markets. Then, we'll move on to your questions. And I would like to ask you already at this time that during the questions-and-answers session, please limit yourself to one question, one follow-up, and if you have anything else, you can feel free to hop back into the queue.

But with that, over to you, Philippe.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

Thank you. Thank you, Natalia. And good morning, everyone.

I'm very pleased to be presenting our third quarter results today, and let me start by saying that Q3 was in many ways a strong quarter. Although development was, of course, a key highlight, nearly 8% growth is an excellent achievement, and I'm happy that growth was broad-based. We delivered again on our target to consistently improve profitability towards our midterm margin corridor, not only did we grow earnings, but we also had healthy cash conversion in the quarter.

For me, a key point worth emphasizing is that over 60% of our sales is today coming from Service and Modernization. This shows that our pivot towards a more resilient business model is proving successful. And last but not least, we continue to drive our strategy forward with precision and speed. I will share a few concrete example of strategy progress, but let's first take a look at our financial performance in more detail.

So, as just mentioned, order growth was strong this quarter. We saw over 10% growth in all areas except China. The biggest driver was Modernization, where orders were up double digits. And I'm also pleased that our efforts to strengthen competitiveness in the Residential segment paid off. This supported good momentum in New Building Solutions, especially in Europe and in the Americas.

Sales grew by 3.9% at comparable currencies. Modernization delivered another excellent quarter, with sales up 15.5%. Our Service business also performed well outside China. While in China, development was more stable. Adjusted EBIT margin expanded by 75 basis points from a low base, and the main driver was the growth in our largest profit pools, Service and Modernization. And finally, cash generation was strong with operating cash flow increasing by roughly €100 million year-over-year.

Let me now share some highlights from the quarter. The first one, and you see the smile on my face, is a very exciting milestone where we secured the contract to equip the Jeddah Tower in Saudi Arabia. Rising to over 1.000 meter, this will be the world's tallest building once completed. It will be equipped with solutions from KONE next-generation high-rise offering, including our super-light UltraRope hoisting technology. I'm very proud of this win. It showcases not only our unique innovations, but also our capacity to deliver highly complex projects in a reliable way. With this win, five of the world's 10 tallest building will feature KONE technology. I see this as an excellent recognition of the work we've done to reinforce our leadership in the high-rise segment.

As you know, our strategy focuses on making KONE an even more resilient business with Service and Modernization as the key drivers of growth. And I'm pleased with the progress we've made in accelerating this shift during the year. Let's start with Services. We began the year with roughly 35% of our maintenance base connected and well now approaching 40%. At the same time, our field service technicians are leveraging productivity tools in 41 countries and we're enabling remote service in 35. These advancements are critical to deliver greater transparency, improve predictability, and more efficient service for our customers.

Let's now turn to Modernization, where customer response to our partial Modernization offering has been very positive. This is the fastest growing segment within Modernization and accounts for the largest share of modernized units. For KONE, partial Modernization provides scalable growth and enable us to address market opportunities more broadly. For customers, it offers easier installation and improved energy efficiency at a more attractive cost. I see this as a true win-win.

Let's now move on to sustainability, where we have lots of good news to share. Let me highlight a few components of our sustainability index where we've made particularly strong progress. First, we have continued to scale our solution to drive energy efficiency. A good example is the growth of our partial Modernization business and the fact that regenerative drives are now included in more than 60% of our deliveries. We have also improved our [ph] Bitsight (00:06:02) rating, which is how we measure progress in cybersecurity, a key priority for us. We're actually now in the top 10 percentile of the engineering peer group.

On the people side, I'm proud to share that KONE was recognized for the sixth year in a row on Forbes and Statista's list in the World's Best Employer. This is a fantastic acknowledgment of our commitment to being the number one choice for employees fully aligned with our strategic ambition. Finally, we announced a partnership with UNIDO. Together, we will conduct training programs for our suppliers to promote sustainable practices and human rights across the supply chain.

Now, let me hand over to Ilkka who will go through the market development and financials in more details. The floor is yours.

Ilkka Hara

Chief Financial Officer, Kone Oyj

Thank you, Philippe. And also a warm welcome on my behalf to this third quarter result webcast. As usual, let me start talking about how we are seeing the markets developing in different regions over the past three months. Overall, the trends were broadly similar to what we've seen earlier this year. In terms of New Building Solutions, as I'm sure you're well aware, market conditions continue to be difficult in China.

In all other areas, we actually saw increasing market activity. If we move East to West, demand continued to be strong in Asia-Pacific, Middle East and Africa. In Europe, activity picked up from Q2, growing slightly compared to last year. And we also saw some growth year-on-year in North America despite trade policy related uncertainty. Then, looking at Service and Modernization. We continued to see healthy growth in all regions.

Next, let's go through our financial development in the quarter in more detail. As usual, I'm starting with orders received, which as Philippe mentioned, was a highlight of this quarter, 7.8% growth at comparable currencies is a great achievement. Interestingly, China New Building Solutions was the only soft spot. Modernization continued to grow strongly in all areas and we had a good quarter also in New Building Solutions outside of China, both in volume business as in the major projects as well. Order margins were stable overall, which – with China still under pressure and more stable development in other areas.

Turning into the sales, which grew 3.9% at comparable currencies in the quarter. Looking at the development by business, it was great to once again see the strong order book rotation in Modernization. Sales increased by 15.5% overall, and more importantly, all areas contributed with double-digit growth. In New Building Solutions, continued low delivery volumes in China was the main driver behind 5% decline. In Service, we grew by 7.3%. Outside of China, growth was very much in line with our targets.

In China, we have taken deliberate actions to prioritize margin and cash flow over volume in all of our businesses, including Service. This means being selective and sometimes walking away from contracts that are not meeting our performance criteria. Pricing and revenue uplift from digital services solutions continue to contribute positively to Service growth. The repair business also performed well in the quarter. This is actually a great example of the benefits of accelerating digital.

As Philippe said, connectivity enables productivity. And when we perform service more efficiently, we release time that we can use, for instance, more proactively to drive repair sales.

Then, moving to adjusted EBIT and profitability. Margin expansion in the quarter was 75 basis points year-on-year, which is a good outcome despite the low comparison point. This took adjusted EBIT to €341 million. Looking into the details, we saw again some negative impact from higher investments into R&D and our strategic growth areas. That said, the main headwind continued to be the new equipment market in China. More than offsetting was the positive mix impact of Services and Modernization growth. So, overall, good delivery of our 11th consecutive quarter of profitability improvement and especially good to see also sequential improvement, which is not always the case for Q3.

Then, turning to the cash flow, one of my favorite metrics. Cash generation was strong in the quarter, supported by growth in operating income and by changes in working capital. Cash flow from operations increased to [ph] €364 million (00:11:21), bringing year-to-date cash flow to €1.3 billion. The contribution from working capital came mainly from advances received, which, of course, related to a strong growth in orders. And although not a big contributor, this quarter, our focus on collections continues and it's progressing well.

Then, looking at the whole year 2025. First, we have made a small update on our market outlook. We now expect the New Building Solutions market in North America to grow slightly as activity continue to trend upward in Q3. Of course, the business environment in the US in particular remains fluid. Our view on other areas is unchanged. China continues to be the main challenge. In Europe, we expect some growth. And in Asia-Pacific, Middle East and Africa, we expect clear growth. For Services and Modernization, our outlook continues to be positive, with growth opportunities in all areas.

Then, to our business outlook. With three months left in the year, we have specified our guidance slightly. We now expect sales to grow 3% to 5% at the comparable exchange rates and the adjusted EBIT margin to be in the range of 11.9% to 12.3% this year. FX is expected to be a headwind. If it remains at the October levels, we estimate a roughly €30 million negative impact to EBIT. China continues to be a burden to our both volumes and margin. We also expect small impact from tariffs, but as we discussed already previously, most of the impact is recoverable in our view. We have already made good progress in mitigation actions. In terms then on tailwinds, Service and Modernization growth is the main positive. We also expect some support from the ramp-up of performance initiatives.

Then, finally, let's look at how we are currently thinking about year 2026. Starting with challenges. China construction market is not yet showing any signs of leveling out, so this will continue to be a burden, less than in 2025 as our exposure continues to come down. We also expect similar inflationary pressure on wages, as we have seen this year. On the positive side, we continue to see opportunities to grow our Service and Modernization business, which will contribute positively to the earnings mix. We also expect meaningful contribution from our performance improvement measures, and we have made very good progress in our product cost reductions this year, which will also be supportive. So, those are our initial thoughts and, of course, we will provide more color when we report Q4.

Let me now hand back to Philippe to close the presentation before going through the Q&A.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

Thank you, Ilkka. So, to wrap it up, let's make – so, let me first take the opportunity to thank all the KONE teams for their great achievements and for delivering a strong Q3. We had yet another quarter of good momentum in

Service and Modernization, which showed that the transformation we are driving is well underway. I'm also very happy with the progress we are making in executing our right strategy and we continue to move full steam ahead.

And finally, our performance this quarter showed that we are on track to delivering on expectations for 2025 and building solid momentum towards reaching our midterm financial targets.

Thank you all for your attention. And I suggest now we move on to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from the line of Andre Kukhnin from UBS. Please go ahead.

Andre Kukhnin

Analyst, UBS AG (London Branch)

Q

Good morning. Thank you very much for taking my question. Maybe actually, I'll start with a quick follow-up on what you mentioned on China exposure coming down during this year. Maybe could you help us to calibrate that a little bit? I think we talked about China new equipment margin being clearly below group average in 2024. Is it fair to assume that it's come down substantially further in 2025 into sort of more mid- to low-single-digit range?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

It's always difficult with this adjective, substantially, like you said. But what I would say that our margins in China in New Building Solutions have come down in 2025 further.

Andre Kukhnin

Analyst, UBS AG (London Branch)

Q

Got it. Thank you. And the main question really for me is on the performance improvement initiatives that you talked about, and we've been kind of [ph] tracking and talking about (00:16:43) since the Capital Markets Day last year. Can you just walk us through what has been done during 2025 and what will be delivering those kind of meaningful contribution, as you mentioned, in 2026? And is there any way we can start sort of quantifying that already for 2026?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Well, if I start, I think you are quite passionate about this, Philippe, yourself. So, what we have outlined in Capital Markets Day is that we see an opportunity for us to improve our profitability by 150 basis points by year 2027. And then, of course, we need to make a decision that to reinvest some of that back to growing the business further. In that progress, we have started to now execute those programs, the largest ones which are contributing to the profitability are focused on our procurement, how we source both at the factories as well as in the local operations and as well as how we perform at the regional level or the lowest level where the KONE teams come together and we call it sales and operational excellence.

On sourcing, I'm very happy how we've been able to drive our product cost down this year. We have yet another record in terms of product cost reductions as a result. We have more work to be done on the local sourcing part,

and that's because it's touching more teams and we need to then just lower to get that executed. So, good progress in where it's more centralized, more work to be done and good opportunities in there.

And then, sales and operational excellence, we are seeing that the teams are really now able to drive better and better outcomes, and we have more and more consistent execution. But also there, we have plenty of work to be done on that one. Maybe you want to comment?

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Yeah. I mean, those things take time. I'm rather impatient as a person. But, I mean, you don't – company is not a light switch. So, when you drive things at the branch level with much stronger sense of execution, timely, weekly tactical and things like this, it takes some time to spread within the company. I think we've said during the Capital Market Day that we would start to see the impact of most of these actions by the end of 2025. Nothing has changed on that front.

The only thing I can say that we've been extremely diligent in 2025 to ramp up our actions, be extremely systematic, and I feel much better about, let's say, the level of detail and scrutiny and capacity to execute we have on this work. And I would say on procurement, the arrival of Michelle Wen, who came with a very strong automotive background and she just came in actually in August. So it's not yesterday but it's a few weeks away, is giving me confidence that we can actually intensify the work we want to do on the procurement side.

Andre Kukhnin

Analyst, UBS AG (London Branch)

Q

Very helpful. Thank you, both of you.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Thank you. Andre.

Operator: The next question comes from the line of James Moore calling from Rothschild. Please go ahead.

James Moore

Analyst, Rothschild & Co Redburn

Q

Yes. Good morning, everyone. Thanks for the time. I wondered if I could talk about your service growth. Would it be possible just to give us a flavor for the speed of the unit growth in maintenance base versus the price behind that and other topics is the first question, just to understand whether the speed of maintenance base growth is broadly stable or accelerating or slowing for any reason? And whether prices broadly the same or not?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Yes. So, overall, on the LIS growth and I guess I commented that already during the presentation. So, the LIS component of that is growing in Q3, a bit less than we've seen as a trend line. And the main reason for that is two

things. One, which is that in China, we're clearly focused more on lining up the business to focus on cash flow and profitability. And in some cases, it also in the service business. We've actually decided to let go some of the customer contracts as they're not meeting our performance criteria. And then, it's more of a quarter-by-quarter, there's fluctuation. So, it happened to be that in Q3, we had a bit less acquisitions than we've seen in the recent quarters as a result.

The good thing is that both pricing, including digital as well as repair sales, are actually progressing quite well. So, in that sense, we're making very good progress on that front. And then, lastly, I think it's also that, given what I said, so we had very close to the targeted level of 10% growth or close to 10% growth in services in three of the areas whereas really the slowdown in sales was more related to China actions we've taken.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Which is a clear choice. And actually, I'm very happy to see the result, which is our cash generation in China and our profit improvement in China on that front is according to plan. So, I would say we are executing what we want to execute and it's a bit of a two-way of doing things, which is China on one side where we've always said cash, margin and moving to more Service and Modernization versus elsewhere, where clearly our – the way we are executing is different because the markets are different.

James Moore

Analyst, Rothschild & Co Redburn

Q

Thanks, Philippe. And can I just follow up on that? I mean, over time, I felt that the maintenance base grows with a lag after the first service period from the unit deliveries, but also your win-loss ratio and your conversion ratios and you always had a very high US-European conversion ratio, 80%, 90% and a more muted 50%, 60% conversion ratio in China. I'm just trying to understand, is it that the conversion ratios are broadly staying the same across the three regions, and that it's the active choice on the win-loss ratio to effectively, proactively lose? And if intensity of this change, which slows your maintenance base growth at the moment, is that something that's going to intensify yet further going into 2026, if you like, with more proactive contract management?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

No, I don't think that's something which will continue going forward. It's been more of targeted efforts right now. And it's good to note, so first, your comments on conversions as well as retention. So, they are quite stable. And for example, in Europe where the NBS market has been now for a few years been down, we've been able to actually quite nicely grow the services business as I've noted in previous quarters. So, we've been able to mitigate with good retention, win-loss ratios improving and some acquisitions as well to drive growth in a market where there's less conversions.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

And talking about our service business, you've probably noticed that we talk quite a bit about our repair business, where actually we've done quite some work to make sure that we would optimize that part of the business. It's actually significant in our service figures, both top line and profit. And when trying to understand how the service business work, I'd encourage you to really look at, yes, the pricing and the service base, but also the repair business, which for us at least is very important.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Yeah. And actually, the repair business grew really nicely, almost double the speed of our service business in the quarter.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Yeah. Absolutely.

James Moore

Analyst, Rothschild & Co Redburn

Q

Very helpful. Thank you.

Operator: The next question comes from the line of Daniela Costa calling from Goldman Sachs. Please go ahead.

Daniela Costa

Analyst, Goldman Sachs International

Q

Hi. Good morning. Thank you for taking my question. I'll ask just one and it's regarding Modernization, obviously very strong 10% organic order growth there. Can you give us some light on how sort of your installed base age has evolved? I know you talked about the mono elevators being very important for that modernization. So, can we see this 10% plus sustainable going forward when you look at sort of how the curve of age of installed base is, any light there would be helpful?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Well, I guess, first good to note that the Modernization growth was actually on a quite close to the 15% target that we talked about in the quarter. So, very good numbers. Then, on this aging of the portfolio, so I think there's two topics I would highlight then. So first, there are so many elevators in the world that needs to be modernized that we're not yet making a dent onto the aging as a whole. And most of the elevators that are old are actually outside of our own LIS base. So for us, the growth opportunity will be more working and targeting previously our own service base. But really, the big blue ocean is the elevators that are not in KONE maintenance. And there, I think, we're increasingly making good progress in identifying those and having the right go-to-market to really get to those customers. So, at this rate, we're still – the elevator base is aging more than we're able to modernize as an industry and also, I guess, for KONE as well.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Maybe to illustrate a bit more, Daniela, the topic and I'm going to quote some figure that I think I've listed in the Capital Market Day, but there is 25 million elevators in front of us, of which 10 million are more than 15-year-old total in the world. These 10 million will become 13 million by 2030. So, whatever happens every year, whatever happens to real estate market in China, outside of China, there is growth because elevators are aging, whether our elevators or the elevators of competition.

With that in mind, today, when I look at our figures and we are happy with our figures, and we'll try to do our best to sustain that growth. We are actually modernizing tens of thousands of units versus 10 million units in front of

us. So, we've said it many times, but we'll repeat and we'll repeat and we'll repeat, this market is growing structurally because elevators are aging. And today, we have good figures, but we are not, I mean, there's still a lot more that could be done with innovation, with better execution and so on. So, we are confident in our capacity to drive scalable growth in that field.

Daniela Costa

Analyst, Goldman Sachs International

Q

Thank you very much.

Operator: The next question comes from the line of John Kim calling from Deutsche Bank. Please go ahead.

John-B Kim

Analyst, Deutsche Bank AG

Q

Hi. Good morning, everybody. Thanks for the opportunity. Could we just go back to wage inflation for a second? Can you give us a sense of quantum of growth there as a growth rate and how that compares to what you've maybe were seeing earlier in the year? And how should we think about the cadence of the price ups that are in the contracts versus this inflation? Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

So, twofold, we are seeing, I guess, I've said also earlier that our wage inflation this year is around about 5% on average for KONE as a whole. And yes, our escalation in contract prices for services have actually been quite close to the inflation level. So we've been able to continuously now drive not only the CPI level inflation, which is continuously coming down, but actually representing the inflation we're seeing, and then, we have the productivity as a separate item. So pricing, yes, we can escalate Service contracts. But of course, then also we see broadly outside of the Service operatives, also the wage inflation impacting our cost base as such.

John-B Kim

Analyst, Deutsche Bank AG

Q

Super helpful. One follow-on, if I may. Can you give us any color on how you're driving better penetration of connectivity?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

I think that's for you.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Discipline. Discipline. And it's – it looks like – it's not easy. I mean, in every, let's say, [ph] for regional (00:30:07) industrial company, I think it takes some time to make sure that our people understand the value of connectivity. And on the few things that I'm really happy with when I look at the step-up that has happened in the company for every one of us to understand, especially in our Service business, that Service will have to be digital. I think we've been good at discipline. And we'll be even better disciplined. And we've been – I've been very clear to the people in KONE, [ph] we want (00:30:34) by 2030, 100% of our installed base will be connected. And we're going to be very disciplined and focused on driving that goal.

John-B Kim

Analyst, Deutsche Bank AG

Thanks very much.

Q

Operator: The next question...

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

And it makes sense for customers. And actually, I have been on the road for three weeks in North America meeting many, many customers. The great news is the feedback from our customers is, we execute well. They see the value of our connectivity around transparency, around predictive capabilities, around from time-to-time remote services, and they really like it. And the feedback we get is we seems to be executing pretty well on that front. So, we'll keep doing that.

A

John-B Kim

Analyst, Deutsche Bank AG

Thank you.

Q

Operator: We are now going to take the question coming from Martin Flueckiger calling from Kepler Cheuvreux. Please go ahead.

Martin Flueckiger

Analyst, Kepler Cheuvreux SA (Switzerland)

Yeah. Good morning, gentlemen – ladies and gentlemen, thanks for taking my two questions. The first one is on China, and particularly the property market there, where July-August data have seemed to suggest that there was a steepening of the decline. And yet, when I look at your data on the Chinese property market, it looks like NBS orders were relatively in real terms or relatively stable in terms of dynamics. So, just wondering, is that because of rounding? Or what do you see on the ground in the field? Was there a worsening in the NBS market actually, maybe towards the end of Q3? That would be my first question.

Q

The second question, if I just may add on, is on the financial income that you've reported for Q3. If I saw this correctly, you've posted a negative financial income for Q3. If you could just elaborate on the reasons for that, that would be helpful? Thanks.

Ilkka Hara

Chief Financial Officer, Kone Oyj

Okay. I'll take them in reverse order. So, the financial income is related to hedging. And if you look at the nine months year-to-date that gives you a better picture. So Q2, Q3, you see the opposite direction there. So, in nine months, you see the real underlying performance there.

A

Then, on China, so I think as I've said during the last few years that a lot of the KPIs fluctuate somewhat and whether it's better or worse around that volatility, our view of the market has not changed. So, we are seeing the market decline this year in units and value double digit and more in value than in units. And I would say that during Q1, Q2, there was a bit – some signals that were better. But I would not say that the Q3 has been something where we've seen a big change overall.

And it's important for us to also note that, yes, we want to be a meaningful player in China and want to go after the Service and Modernization opportunity. But as Philippe already said, and I said, I guess as well, that we are optimizing the business to cash flow, profitability and the pivot to Services and Modernization. So, we'll take the business that we see supporting those priorities in NBS then in the market. But I don't see that the market has dramatically – or there's been a bigger shift during the Q3.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

And to repeat on the China market, maybe it's clear for everyone, but I will repeat, the market today is 50% NBS, 50% Modernization and Service. So, if there is any change that, is that over multiple years, what was an NBS-dominated market, now it's coming 50-50. I'm not having any crystal ball, but it's pretty obvious that, that trend will continue, meaning the share of Modernization and Service will likely keep increasing, if we see what's happening because the country's aging.

We see growth and actually pretty healthy growth in Modernization. We are driving our Service mix first with cash and margin. But there are still opportunity in Service. And we are clearly adapting our forces in NBS to take into account that market reality. And I would say on that front, I want to complement the team for reducing their cost very aggressively, both product cost and the fixed cost we have to adapt ourself to a market reality, which indeed is going down.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Thank you, Martin.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

On NBS.

Operator: The next question comes from the line of Vlad Sergievskii calling from Barclays. Please go ahead.

Vlad Sergievskii

Analyst, Barclays Capital Securities Ltd.

Q

Yeah, good morning. Thank you very much for the opportunity. Two questions from me. Can I please start with the follow-up on Modernization growth opportunity ahead? To what extent it is driven by the market growing or it is actually KONE creating the market for itself by addressing installed base, perhaps in a more proactive way, or opening new market niches for themselves. But I hear your comment [ph] that, Philippe, the (00:36:17) installed base is aging. But it probably has been aging for forever and KONE Modernization growth was almost never as impressive as it is today?

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

I think it's a mix of both. The market is growing, and you have the data on our assumption of the market. But the market growth is good. And we believe that we are gaining market share in that space because we are focused. And because we try to drive the right innovation and be customer-centric, which is when you have an elevator in your premise, the last thing you want is having any OEMs coming and say, okay, for months is your elevator is not going to work. So, what we are doing is we are listening to our customers and say, you know what, we are

going to make it shorter, simpler, so that actually we do what's strictly necessary to start with, which very often is electrification upgrade.

And then, we'll go in the lifecycle discussion with you to make that improvement over multiple years with smaller chunk that will be less risky. That's not – I'm not reinventing the wheel here, but we are executing in a very focused manner, trying to have modular offers in front of this and it's working very well. So, we are gaining share in that regard and we really are trying to push our team to be very customer-centric on a growing market. And the result is a double-digit growth, which is very consistent, which is driving value for the company and we are very happy with that.

Vlad Sergievskii

Analyst, Barclays Capital Securities Ltd.

Q

That's great. And a quick housekeeping question, if I may, to Ilkka, interest income line was negative about €15 million this quarter, which I think is almost the first time ever when this line was actually negative. Is there something to do with hedging practices? Has any hedging practices changed to drive this change? And where in the P&L there could be an offset to this line if there is one?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Yeah. So actually, the previous question was on the same one. I said yes, it's on hedging and the year-to-date picture gives a better picture of the real underlying income and expenses. So, between Q2 and Q3, we had an opposite development on there.

Vlad Sergievskii

Analyst, Barclays Capital Securities Ltd.

Q

Thank you very much.

Operator: The next question comes from the line of Panu Laitinmaki calling from Danske Bank. Please go ahead.

Panu Laitinmäki

Analyst, Danske Bank A/S (Finland)

Q

Hi. Thank you. I have two questions. Firstly, on China NBS. Just on the margin, so was it still positive in Q3 and going forward, do you expect to kind of [ph] protect (00:39:00) the margin with actions you mentioned reducing fixed costs and so on? So, that is why you gave the comment that it's a smaller headwind going into 2026?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Well, yes, on the both of the questions, and I guess I was also in the smaller headwind, meaning that the size of the business relative to the size of the rest of the business is smaller.

Panu Laitinmäki

Analyst, Danske Bank A/S (Finland)

Q

Great, that's clear. Then, the second question is on Modernization. So how much is partial Modernization out of orders and sales, roughly? And then, how has the margin of Modernization developed? I mean, a year ago, you

said at the CMD that it's close to the group average. So, is it still there or [ph] has been – it had been changed (00:39:45) so far?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

We see on the partial Modernization, it continues to be a bigger and bigger part of the Modernization. I don't think we've been very clear on exactly how big part of that is. And on Modernization, we continue to see, as it has been during the last years that the profitability continues to be improving as we are scaling up the business on Modernization.

Panu Laitinmäki

Analyst, Danske Bank A/S (Finland)

Q

Okay. And is it fair to ask you that the partial Modernization is more profitable for you than the kind of traditional Modernization?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Yes, it is. It is focused on the most important components of the elevator. There's less construction work related to that as well.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

That's what we call the benefit of being modular and standardizing work, which actually for the customer is better value for money and for us is better execution, less time lost in the field. So, it's a win-win for everybody.

Operator: Okay. Thank you. The next question is from Ben Heelan calling from Bank of America. Please go ahead.

Benjamin Heelan

Analyst, Bank of America Merrill Lynch

Q

Good morning. Thank you. I just had one, which was on M&A. Now, you've obviously said in the past that you want to be a consolidator of the industry. I just wondered if – is that still where your mind is in terms of the future of the business, you see consolidation as a focus. And when we think about leverage ratios, is there any sort of framework that you can give us in terms of the leverage that KONE would be willing to go up to and any framework over there based on credit rating, et cetera? Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

I don't think the comment on the consolidation making sense in the industry has changed. We've said it for a very, very long time. Lately, actually, we've been doing consolidation more on the smaller maintenance companies on an increasing speed. So, that's also then that we want to be a driver of the consolidation. Then, on leverage, so I guess we don't – we're net debt negative right now. So it's not been an issue, but I've said previously that we want to continue to be a investment grade – strong investment grade company going forward.

Benjamin Heelan

Analyst, Bank of America Merrill Lynch

Q

Okay. Very clear. Thank you.

Operator: The next question is from Rizk Maida calling from Jefferies. Please go ahead.

Rizk Maida

Analyst, Jefferies International Ltd.

Q

Yes, good morning. Thanks for your time. Just to follow-up on M&A and more specifically transformational M&A, can we maybe just chat around whether you would be considering issuing equity, if you were to pursue a larger acquisition? And then, maybe geographically, what are the regions where you feel you have little or perhaps where we would like to add sort of more exposure? Thank you. I'll start there.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Well, I guess on the first one. So, I wake up every morning, and I guess Philippe as well, as somebody who sees that there are bigger companies in the industry. So, we're a challenger. We want to grow faster to be the leader in the industry. So, that's clear. I don't think it's one geography per se. I think it's a general statement where we want to grow faster than our competitors to make that happen. And as such, then on the other things on capital structure, capital raising, I don't think it makes much sense to speculate on that.

Rizk Maida

Analyst, Jefferies International Ltd.

Q

Okay. Thank you very much. And then, the second one that I had is just covering the industry for quite some time, and this question is specifically on China maintenance. I think we've seen historically that whenever new equipment business being weak for an extended period of time, we saw that basically spreads to the maintenance side of things. I'm just wondering why this should not be applicable. I mean, I remember this happening to Europe back in 2013/2014 after the European debt crisis, just wondering why you think this should not happen in China, whether it's you competing with different players, structure of the market different and whether this slowdown in maintenance has anything to do with this? Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Well, I – first on China maintenance, I don't think I've ever said it's easy or something where there is not a competition. It is – like we see it, it's a half of the market, this Service and Modernization. So, of course, everybody knows the same thing. And among the world's fragmented, so i.e. most competitive markets in Service is China by far. So, I think that's a starting point.

And then, when you have less new elevators enter into the market, then of course it makes it tougher. What I'm very happy about is that how our team has been able to address it, and now I call it out, because we made conscious decisions now in Q3 that impact outcomes and it's not a market-wide comment, it's rather our focus on profitability and cash flow.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

And maybe to build on your point on China market, when we benchmark across the world, clearly, the China market is more fragmented and we see at the lower part of the market, companies that are doing the very minimum of what they should do in term of safety. We see on the other side, the China government being

conscious that safety standards should move up. Also seeing an opportunity with digital. So, my point is not about next quarter, but when I look at a longer time period, I would expect some further concentration because on one side, the lower part of the market would have a hard time to survive with a standard that I would expect would increase with more digital technology that would make it less accessible for, let's say, lower cost, lower value player to deliver a value which is more and more essential in a country that's being more and more modern and more and more asking for top safety standards.

And we have work to do as an industry to help the industry move to a higher level of digital safety and so on. So, this is upside, how fast it will materialize we'll see. We have our role to play here. We are very active on digital to be a digital driver in China. It's taking some time.

Rizk Maida

Analyst, Jefferies International Ltd.

Q

Perfect. And I promise, the very last one. So, apologies if this was tackled before, because I joined late. Section 232 and its extension to more than 400 products in August, maybe how you're thinking about the direct, but also more importantly, the indirect impacts on the business? Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

It is first question on tariffs, and I think there is a reason for it, because we don't see that meaningfully impacting our results. We are number one, of course, working with our own supply chain on what we produce in US and what do we ship to us, and actually, the export – sorry, import to US is less – about 10% of our business. So, it's actually quite small.

And then, secondly, we are protected by our contract. So, we are actually moving the cost of tariffs largely to our customers. And then, of course, we need to continue to drive product cost actions and efficiency in our supply chain going forward.

Rizk Maida

Analyst, Jefferies International Ltd.

Q

Okay. Thank you.

Operator: Moving on to our next question from John Kim calling from Deutsche Bank. Please go ahead.

John-B Kim

Analyst, Deutsche Bank AG

Q

Hi. He just took my question. Someone withdraw.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Okay. That's good. Efficiency in action.

John-B Kim

Analyst, Deutsche Bank AG

Q

Have a good day.

Ilkka Hara

Chief Financial Officer, Kone Oyj

Thanks, John.

A

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

You, too.

A

Operator: And the next question is from Vivek Midha calling from Citi. Please go ahead.

Vivek Midha

Analyst, Citigroup Global Markets Ltd.

Thanks very much, everyone, and good morning. Hope you can hear me well. I have one follow-up really on the questions around Service growth with one eye on the quite ambitious aim for midterm growth here and the building blocks there. Is there also any material contribution at all from strong Modernization growth you've been seeing in adding to the Service installed base. Is that expected to be some over the midterm helping you achieve your target best? Thank you.

Q

Ilkka Hara

Chief Financial Officer, Kone Oyj

You are seeing me smiling, because that's actually a really important topic and I was talking about the Modernization. So, the focus and the volume of the opportunities outside of our own maintenance base. And indeed, once we partially modernize an elevator, it becomes a digital modern elevator for us to maintain. So, increasingly, that will be a driver for unit growth. And, of course, right now with this Modernization growth, we are starting to see increasing impact coming from that. And the more mature the markets are, the bigger driver for unit growth is Modernization in the long run.

A

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

And those as you call modernized connected elevators, actually, we are more efficient in delivering the right output with our customers, because we use all our capabilities. So, it's playing very positively in the mix. But that's a great point.

A

Vivek Midha

Analyst, Citigroup Global Markets Ltd.

Understood. And a quick follow-up. It's a quick follow-up on that. I don't know if you have stated, but in terms of the conversion rate of, say, one of these partial mods, for example, compared to NBS, I mean, how does that compare in terms of driving the Service debt?

Q

Ilkka Hara

Chief Financial Officer, Kone Oyj

Well, twofold. So, the relative conversion rate is quite high. So, it's a very good level. Then still on the absolute volumes, it's still a smaller contributor. So, we need to scale up the business, but it's a very good way to increase our LIS base.

A

Vivek Midha

Analyst, Citigroup Global Markets Ltd.

Thank you very much.

Q

Operator: There is a follow-up question from Andre Kukhnin from UBS. Please go ahead.

Andre Kukhnin

Analyst, UBS AG (London Branch)

Oh, hi again. Yeah. Thank you very much for taking the follow-ups. So firstly, on the Service adjustment in China, that where you decided to look at some customer contracts. Can you just confirm that that's a one-off or should we think about that for Q4 and maybe into 2026 as well?

Q

Ilkka Hara

Chief Financial Officer, Kone Oyj

I guess I already said it's not a long-term action, but of course, we continue to monitor the business. So, let's see now how Q4 develops. But it's not something we expect to continue for years. The priorities don't change, but I think it's more of a discrete focus on this.

A

Andre Kukhnin

Analyst, UBS AG (London Branch)

Well, let me – if I were to think about it, I'd probably think about it being more margin-focused than cash as such. That's probably some of these units in fairly sort of sparse locations, not really helping density, is that the right sort of avenue or is it cash-driven as well?

Q

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

I think it's both, but it's driven by margin. But we've been really very clear with our China team, cash margin, rebalance the business and the – I mean, China is seeing some cash tension across the board. So, how much is margin and cash? Usually, the two are related, actually, but it's – it's a bit of both. Yeah.

A

Andre Kukhnin

Analyst, UBS AG (London Branch)

All right. And if I may, just one more on China.

Q

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A follow-up to follow-up?

A

Andre Kukhnin

Analyst, UBS AG (London Branch)

Is Modernization – yeah, triple follow-up. Is Modernization still the highest margin business for you in China and is there – well, I think there is scope, but are you also implementing a kind of modular approach there, given that you've got a substantial and sort of broader universal installed base there?

Q

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Yes. So, we plan to drive more – this more modular approach in China as well. And if you think about the size of the buildings, the time to execute the Modernization, it's even more critical for the customers, and we have actually progressed really well. I guess, the fastest in the world in China in terms of driving Modernization is a fair statement. So, kudos to the team on that one. And, yes, Modernization continues to be a good margin business for us in China.

Andre Kukhnin

Analyst, UBS AG (London Branch)

Q

Great. Thank you for your time.

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

Thank you.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

A

Thank you.

Operator: There is another follow-up question coming from James Moore from Rothschild. Please go ahead.

James Moore

Analyst, Rothschild & Co Redburn

Q

Well, thanks for the time. I just wanted to follow up on Service and NBS margins at a global level. You mentioned that China's margin is now in a loss in NBS in new equipment. Is that such a loss that the whole global NBS profitability is now a negative one? And the second question is on Service margins. Are we at an all-time high in terms of Service profitability? And if not, could you say when that was and how many bps or percentage we are below the all-time high?

Ilkka Hara

Chief Financial Officer, Kone Oyj

A

On the first comment, I absolutely did not say that we are making a loss in China in NBS, neither did I say that we're making a loss in NBS globally. So, it is clearly a lower-margin business compared to the other two, but I have not said that we're making a loss.

Then second, on Services, I'm sure that in the history of 115 years, we've had margins that are peaking due to many reasons in Services as well. But I would say that directionally, we continue to see margins improving in Services as we're digitalizing the business and driving productivity and actions we've talked about in pricing and more repair work. So, it's directionally continuing to develop quite positively.

James Moore

Analyst, Rothschild & Co Redburn

Q

Thank you.

Operator: Well, ladies and gentlemen, there are no further questions. So, I will hand you back to your host to conclude today's conference. Thank you.

Ilkka Hara

Chief Financial Officer, Kone Oyj

Thank you.

Natalia Valtasaari

Head-Investor Relations, Kone Oyj

Thank you. And thank you, Philippe and Ilkka, for the answers. Thanks, everyone, online for the plentiful questions, lots of varied ones. Really good to have active dialogue. Thanks for everyone who just listened in as well. I know it's a busy results day, so we appreciate the time. And as usual, if you do have any follow-ups, please reach out to me or the team. We're here for you.

With that, have a great day.

Philippe Delorme

President & Chief Executive Officer, Kone Oyj

Have a great day. Thank you so much.

Ilkka Hara

Chief Financial Officer, Kone Oyj

Thank you.

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