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Kone Oyj (KNEBV.FI)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Natalia Valtasaari

Vice President-Investor Relations, Kone Oyj

Good morning. and welcome to KONE's First Quarter Results Webcast. My name is Natalia Valtasaari. I'm Head of Investor Relations here at KONE, and I'm very pleased to be joined by Philippe Delorme.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

Good morning.

Natalia Valtasaari

Vice President-Investor Relations, Kone Oyj

Our CEO, and Ilkka Hara, our CFO. So as usual, Philippe, will start by giving you an overview of the key developments in the quarter, focusing on business highlights, financials and strategy execution. And then Ilkka will take over, talk you through what we're seeing in the markets, a bit more detail on the financials and our outlook for this year. And then we'll move on to your questions. And I would like to ask you at this point already to please limit yourself to one question, one follow up, and then rejoin the queue in case you have any follow ups after that.

But with that, Philippe, please.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

Thank you, Natalia. And good morning, everyone. I'm glad to be here today presenting our results for the first quarter of 2025. Let me start by saying that we had a very good start of the year, both in terms of financial performance and strategy execution, and of course, the things come together. We delivered strong growth again in both Service and Modernization. Modernization, in particular, had an outstanding quarter with both orders and sales growing by nearly 20%. From a geographical perspective, we saw good momentum in the Americas, Europe and Asia Pacific, Middle East and Africa. In China, orders declined by approximately 15%. New building market conditions remains very difficult there. But we did see some signs that activity could start to bottom out towards the end of the year.

As you know, profitable growth is at the top of our agenda. So I'm pleased to share that Q1 marked the ninth consecutive quarter of margin expansion. And last but certainly not the least, we continue to steadily execute on our strategy, Rise, and I will share a few examples of recent developments a bit later on. But first, let's look more closely at our financial development. Overall, it was great to see growth in all our key metrics. Number one, orders. So order received increased by 5% in the quarter and over 10%, including China. These are good numbers in my mind, and the increase was mainly driven by, again, Modernization, but actually New Building Solutions had also some good wins, for instance, in Europe.

If we look at sales, our sales increased by 2.8% at comparable currencies. Modernization was, again, the key driver, hence the repeat, that Service also developed very well. We actually had double-digit Service growth outside China, which is really an excellent achievement. I said we'll continue to deliver consistent profitability improvements. So thanks to a favorable business mix, our adjusted EBIT margin improved by 25 basis points in the quarter. And finally, we got off a very good start in terms of cash generation with an operating cash flow increasing by approximately €90 million year-over-year, and you see the total of €487 million.

As always, I want to share a few exciting customer references from the quarter, and this time we're going to focus on Modernization, which is really a great growth engine for the company. First, a very impressive win in China, where we have received an order from the government of Suzhou for partial modernization for over 2,000 elevators. I repeat, 2,000 elevators. The project is linked to the government efforts to support urban renewal, and most of the units will include regenerative drives or hybrid system that drive energy efficiency. And so they are a clear environmental benefit, and most of these units are equipped with 24x7 connected services.

Then another interesting case in Europe, where we have recently finalized the first stage of a partial modernization project for Prague's tallest skyscraper. I was there, actually. Very impressive project. And also here, there is a strong environmental angle as energy efficiency was a key driver of the decision to modernize. Turning now to US, which is our second geography now, where we will be participating in revitalization of the Capital One Arena in Washington D.C. Our scope covers both delivering new units and modernizing existing ones, and we will also continue to provide service for the facility. Very nice to be strengthening our relationship with this longtime customer.

Now, let's look at some business highlights, which really shows the execution of our strategy. Let's start with Services. I'm happy to see that after a few quarter of very dedicated focus, connectivity has started to move up with 36% of the Service base now connected. We have also been putting a lot of effort into developing and deploying solution that will transform how we perform field service. Let me take, for instance, remote service. So today we are able to perform an even broader variety of tasks remotely, and we've made this offering available in

15 countries now. Servicing equipment remotely enables us to react to issues with more speed, which is great for customers and also makes our work a lot more efficient.

Turning next to Modernization, where we've made very good progress in driving partial Modernization during the quarter. I want to highlight Europe as a region where we had particularly good traction. We saw nearly 30% growth in orders for MonoSpace DX Upgrade package in Q1, and tendering is even more up in several countries. We also received an A-class energy efficiency rating for this upgrade package, which really validates the positive environmental impact we can achieve with Modernization. Finally, in New Building Solutions, our new elevator for the low-rise markets, our MonoSpace 100 DX was rolled out to several new countries in Europe during the quarter. The feedback we have received from our customers is very promising, and tendering activity has gotten off to a very good start.

Let's now move to a topic that's close to my heart, which is sustainability. As you may remember, at the beginning of the year, we introduce our new sustainability index, which tracks how we are performing against our longer-term ambition in various areas of sustainability. This year, we target an improvement of nearly 20 points from the 2024 baseline, and we've gotten off to quite a good start during Q1. The highlight was a remarkable step up in regenerative drive sales. This technology helps our customers to improve energy efficiency and reduce carbon footprint by [indiscernible] (00:07:33) the energy generating when an elevator breaks. It's also a key enabler for our Scope 3 emission reduction target.

So the fact that over half of the elevators sold in Q1 were equipped with regen drives is really a great achievement. We also received some important recognition for our sustainability work. We were once again included in the CDP A List for climate change, where we were the only company in our industry to be placed on the Clean200 list, which ranks the largest companies by their clean revenue. Last but not the least, some people-related development. In February, we announced that Nicolas Alchal will take over as EVP of Commercial & Operations, and that Kaori Uehigashi will continue as EVP for Strategy & Transformation on a more permanent basis. I'm glad to be continuing to work with both of them on the executive board.

One of my personal goal is also to ensure that KONE has a leadership team that is distributed and even closer to our customers. So for this reason, Nicolas and Kaori will be based in Middle East, a region that offers very exciting growth opportunities for us. And also, of course, a warm welcome back to Karla Lindahl was returned from parental leave to a role as EVP for Europe.

Now, let me hand over to Ilkka, who will go through the market developments and financials in more details.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

Thank you, Philippe. And also warm welcome on my behalf to this first quarter results webcast. I'd like to start by taking a step back and talking about how we saw markets and KONE's position developing in 2024 based on our most recent market sizing exercise. In 2024, the global installed base grew in line with our expectations to approximately 25 million units. New Building Solutions contributed to this growth with approximately 900,000 units, of which half came from China and half from the rest of the world. In value, the Services market was the largest last year at over €36 billion. Overall market value including Services, Modernization and NBS was over €85 billion.

Modernization was the fastest growing market, increasing by 9% in 2024. Today, approximately 10 million units are over 15 years old. So we continue to see a aging elevator base representing a great opportunity. Then let's look at KONE's performance. Based on our estimates, we grew our market share in all modernization markets

globally. We also gained share in services markets outside of China and maintained our position in China. In New Building Solutions, our market share declined in North America, but grew in all other areas. So all-in-all, faster than market growth on a broad basis and a very good development in the important Services and Modernization markets.

Then turning to the market activity during the first quarter of this year. In New Building Solutions, as already mentioned by Philippe, market conditions in China remained very difficult. Activity declined also in North America. Here, uncertainty related to tariffs had some impact towards the end of the quarter. On a more positive note, demand improved slightly in Europe, and activity in Asia-Pacific, Middle East and Africa continued to grow clearly. Services and Modernization markets also continued to develop well with a growth in all areas.

Let me next go through the financials in a bit more detail, and I'll start with orders received. Orders received grew overall by 5.1% at the comparable currencies in the first quarter, and grew over 10% outside of China. This is a very, very good outcome. The 20% increase in Modernization orders was the main driver of the positive development. I was especially pleased to see the Modernization growth was broad-based with a strong development in all areas. New Building Solutions came down slightly, mainly due to a significant decline in China, where property market conditions are still very difficult. As you know, in this environment, our focus is on securing healthy business in China, and this was visible in the Q1 order development.

China also resulted in the margin of orders received been slightly down year-on-year. In the rest of the world, the margin on orders was more stable. Then to sales, we had a solid start with 2.8% growth at the comparable currencies in the quarter. From a business perspective, New Building Solutions declined by 10.7%. This was mostly driven by China, where delivery volumes continued to be low. Modernization was again the highlight with nearly 20% growth. Services also developed very well, growing by 8.5%. Both maintenance base and the value component contributed to this good growth. And with value, I mean pricing, repairs and digital.

Looking at Services in our different geographies, we saw over 10% growth outside of China. This was very good performance. In China, we have focused on cash and profit over volume also in the Services business, and this impacted our growth rate in the quarter. Then moving to adjusted EBIT and profitability. As Philippe already said, it was great to see yet another quarter of profitability improvement. Margin expansion in the quarter was 25 basis points year-on-year, and this took adjusted EBIT to €280 million.

Looking at the profitability more closely. The margin decline in China was again the biggest challenge. We also had some negative impact from fixed cost absorption due to a lower seasonal quarter. These headwinds were more than offset by positive mix impact from over 10% growth in Service and Modernization sales. Our performance initiatives are moving forward at a good pace, and some first results are already visible in our numbers. Procurement savings have, for instance, helped a bit New Building Solutions. And as we have previously indicated, we expect these efforts from the initiatives to ramp up as we go through the year.

Then turning finally to cash flow. As I always say, one quarter is a short time, but still it is very good to see the cash flow progressing steadily in the beginning of the year. Our cash flow from operations increased to €487 million, with a support from both operating income as well as working capital improvement. Looking at the working capital, the improvement was mainly relate to Services invoicing cycle, but order growth also contribute to increase in advance payments. And both NBS and Modernization contributed to that. Importantly, we've been able to manage our accounts receivable in China well.

Then looking more forward and for the full year 2025. So from market perspective, our growth outlook for the Service and Modernization is unchanged, and we continue to see interesting opportunities in all areas. We have

made some small adjustments to our outlook for the New Building Solutions market. We now expect market activity in North America to decline slightly as a result of the increased uncertainty. On the other hand, we are more positive on the outlook for Europe, and expect a slight growth this year. Elsewhere, our outlook remains unchanged.

Then let's look at our business outlook. With one quarter behind us, we have quantified our guidance. We expect our sales to grow by 1% to 6% at the comparable exchange rates, and adjusted EBIT margin to be in the range of 11.8% to 12.4% this year. FX is expected to be a headwind. If rates remain at the April level, we estimate a roughly €50 million negative impact to EBIT. China continues to be the main challenge for both volumes and margin. That said, performance will be supported by Services and Modernization also in the coming quarters, as well as by the ramp up of the performance initiatives.

Now, I know you're all going to ask about tariff impact. So let me try to pre-empt some of the questions. First of all, let's keep in mind that we operate a very local business. Approximately one-third comes from services, and we have higher low cost manufacturing and production setup. We do import certain goods and components to the US, mainly in the New Building Solutions. The value of these imports is less than 10% of our US sales, so around €200 million, and approximately 25% of this comes from China. So what does this mean for our financials this year? There will be a gross impact, but our main aim is to recover most of this, and I think we are in a good place to do so.

Mitigation actions like protective contract language, and using exemptions available under USMCA are already ongoing. We're also adjusting our sourcing and manufacturing footprint to be even more local. So net-net, limited impact, and this is considered in our guidance. Let me now hand back over to Philippe, and to close the presentation before going into Q&A. Hopefully you have...

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

So it was time.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

You have more voice than I do.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

I'm the rescue crew. Sorry about that. So to wrap it up, I'd like to start by thanking all the teams at KONE for delivering a solid Q1. Consistent strategy execution continues to be our key priority, and I'm really pleased that we've had so many positive developments to share with you today. It was also great to report another quarter of strong growth in the resilient Service and Modernization businesses. And finally, with our growth and profitability expectations for the year, we will show good progress towards our mid-term targets. Thank you all for your attention.

And I propose that we now move on to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will take our first question from John Kim, Deutsche Bank. Your line is open. Please go ahead.

John Kim

Analyst, Deutsche Bank AG (UK)

Hi. Good morning.

Q

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

Good morning.

A

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

Good morning.

A

John Kim

Analyst, Deutsche Bank AG (UK)

Good morning. Could I ask you to clarify your comment on the recovery in the Chinese markets? Are you speaking specifically to NBS solutions by the end of the year, or should we think of it more as your revenue and production footprints in the country?

Q

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

So yes, we're talking about the markets. I recap really the key market data, which is today, the China market is split into two, which really was not the case five years ago. Half is new construction, half is Modernization and Service. In front of this, less than two-third of our business today is new construction, NBS, and more than one third is Modernization and Service. And we are growing in Modernization and Service actually pretty well. Well, actually, we are de-growing, or we are decreasing in NBS. But yes, the comments we made were about market trends.

A

And to be maybe give you some data points, the couple of data points we see on the new construction market are, one, related to liquidity, where we see a situation that is better than, say, six months ago. Second one is, we see leading indicator in Tier 1, Tier 2 city where the land transaction and the price trends starts to be in a more green territory, where actually for many years and quarters they were in red territory. So these are leading indicator. Now, we all acknowledge that we live in a turbulent world where there are news every day. But we wanted to share this as an early sign of possible market stabilization for new construction.

John Kim

Analyst, Deutsche Bank AG (UK)

Brilliant. And just a quick follow on. Can you give us any color on competitive behavior in that market?

Q

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

I would say, China is a competitive market with global players and a few local players. We've seen the smaller local players suffering more because they were probably not having the discipline we've had, for instance, on cash, and then accidents happen and big accidents happen. So we've seen those smaller players suffering probably relatively more. And then, I mean, when you have market decrease in new construction, there is price tension. We've been, I think, pretty explicit about this. So there is competition intensity, which frankly is, we've always said that China is a bit of a fitness lab for us because it forces us to be very competitive. It's a place where digital is being deployed faster than in many other place, and it's a source of inspiration for the rest of the company.

John Kim

Analyst, Deutsche Bank AG (UK)

Q

Brilliant. Thank you.

Operator: [Operator Instructions] We will take our next question from Michael Harleaux, Morgan Stanley. Your line is open. Please go ahead.

Michael L. Harleaux

Analyst, Morgan Stanley & Co. International Plc

Q

Thank you very much for the presentation, and thank you for taking questions. I have just one on Modernization. Will it be possible for you to give us some color on how you see your competitive advantage in this segment against other big four OEMs and against independent service providers? Thank you.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

Which segment exactly?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

We lost you in the beginning. So I think you were saying Modernization. Is that correct?

Michael L. Harleaux

Analyst, Morgan Stanley & Co. International Plc

Q

Yes. Absolutely. That's correct.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

So first of all, Modernization, the market is good, and there is a lot of space for a lot of players. Where I look at what makes our competitive advantage, I think we are very focused. We have a clear business focus everywhere in our different front line in global team. So there is a very, very strong attention. And I would say, within our new strategy we've been crystal clear to everyone that Modernization is the fastest growing business lines and needs attention. Might look like very simple, by the way, it takes time to make it go through the company. But I think, at KONE, people are very clear. It's a big opportunity.

Number two, we are really attentive to what we call partial Modernization. So when you go after those modernized elevator, either you do everything and you make it a bit like a new construction, which frankly is not the smartest way, nor the more efficient, nor the more cost-effective, or you try to standardize packs of upgrade which will allow actually for the work to be done faster, cheaper with actually better outcome for everybody. And that's what we are trying to do. Maybe the last point is when, my learning out of the 2024 and all the trips I've done is, we have very good relationship with our customer in service. And we are known for servicing our customer very well, and being very attentive to their needs, probably better than some of the competitors.

And actually, Modernization in nature is also very related to our reputation in Service. So when we, first of all, on our Service base, it's easier to modernize because we have good relationship with our customers, which again might be obvious, but it's not obvious for everyone. Second one, our reputation helps us to then say, you know what, we're going to go after Modernization and then the Service will be done KONE. So these would be the three points that, in my view, are really standing out for us to really shine and perform very, very well in that part of the business.

Michael L. Harleaux

Analyst, Morgan Stanley & Co. International Plc

Q

Thank you. That was very helpful. Thank you very much.

Operator: We will take our next question from Daniela Costa, Goldman Sachs. Your line is open. Please go ahead.

Daniela Costa

Analyst, Goldman Sachs International

Q

Hi. Good morning. Thanks for taking my question, and I'll have one and a quick follow up afterwards. The first question is actually following up on the debate we're having right now in terms of Modernization, and you were very clear on how growth is developing and ambition is there. Is it fair to assume that profitability in Modernization on orders is also kind of evolving in line with – improving in line with how growth is improving? If you can talk through that, I know you comment on orders specifically on OE in the release, but if you could also comment on Modernization margins on orders.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

Do you want to take that one?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Well, in general, Modernization orders are more stable in the orders. And we've seen the business improving its margins over time, and it's mainly because we scale up the business. So more stable in order margins.

Daniela Costa

Analyst, Goldman Sachs International

Q

Got it. Thank you. And then just to back to the tariff commentary and all the estimates and the color, thank you for that, what sort of raw materials considered into that, I'm thinking about steel and the movements and how much of a raw material lag we could see in the coming quarters or not?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Yeah. So the tariffs, regarding steel and aluminum, were included in my comments. Otherwise we expect raw materials to be more stable for this year. So not a big impact.

Daniela Costa

Analyst, Goldman Sachs International

Q

Got it. Thank you so much.

Operator: We will take our next question from Vivek Midha, Citi. Your line is open. Please go ahead.

Vivek Midha

Analyst, Citigroup Global Markets Ltd.

Q

Thank you very much, everyone, and good morning. My question is also on Modernization, and in this case, the very strong comparable revenue growth you saw in the quarter. That's an acceleration on the rate you've seen in 2024. So were there any steps you took to accelerate the execution of the backlog in Modernization, or is it just a reflection of historical orders or from rising share of partial mod versus full mod? Thank you.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

So we actually had very good quarters of growth in Modernization last year. So we're now seeing that to come into sales. So that's number one. But then strategically, yes, we do want to continue to improve the Modernization order book rotation, because it's the right thing to do for our customers, but it's also good for the business. We see opportunities there.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

And maybe to connect the dots with some of the other work we're doing. So you have here on this page the ramp up of performance initiative. And within this, we have these sales and operational excellence. And within this, we have really one work being really performing our branch excellence to make sure that at the branch level we have very consistent execution with a lot of discipline on executing backlog pricing correctly. And I see the impact step-by-step of the stronger discipline at branch level. So that actually drives better delivery ops and order book rotation. So all of these are connected. It's not coming by chance. I think it's coming by work. And I'm glad to see actually a very solid execution on that side of the business.

Vivek Midha

Analyst, Citigroup Global Markets Ltd.

Q

Thank you very much.

Operator: We will take our next question from Ben Heelan, Bank of America. Your line is open. Please go ahead.

Benjamin Heelan

Analyst, BofA Securities

Q

Yes. Morning, guys. Thank you. I wanted to ask a question on the North American changes to the outlook and the lowering of the guide there. Could you just talk a little bit about what you've seen in Q1 that's driven you to make that change? And then, as a quick follow up on the European side, what's driven that improvement? Thank you.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Maybe I'll take the first. So first, I think in the first quarter, we mostly saw the decline due to a high comp last year, and then a limited impact from decisions being delayed due to the changes in tariffs and the volatility that it creates. I would not say that it's a big change. We saw a slight growth in the market beforehand. Now, we expect that to be a slight decline. So it is our best view on the market. And of course, overall, this uncertainty does not improve the likelihood that projects go forward, and that's included in our change in the expectations. In Europe, on the other hand, we see South Europe been fairly similar, positive market development overall, where we start to see now more improvement, and also impacting our change to watch the slight growth in NBS is more the Central Europe starting to see improvement in the market. Nordics continue to be a quite difficult market still. So a bit of shift in the outlook.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

And by the way, this is for new construction.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Yeah.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

Let's be clear that in Europe, by the way, it's true also in the US. The first market is Service where we have very strong franchise, and actually we see a sizeable market also in Modernization. And the last point, which is not market related but more business related, so I was mentioning this introduction of the MonoSpace 100 DX really to cover the low-rise and be much more cost competitive on the lower part of the market, the affordable part. We see great traction. And historically, we were not always focused on that one. But we are adapting ourself to where the markets are in new construction. The south of Europe is more intense on low-rise and we've clearly gained momentum, competitiveness, focus. And I'm glad to see that things are working.

Benjamin Heelan

Analyst, BofA Securities

Q

Very clear. Thank you both.

Operator: We will take our next question from Jonathan Day, HSBC. Your line is open. Please go ahead.

Jonathan Day

Analyst, HSBC Bank Plc

Q

Thank you. Good morning. I was just wondering if you can talk a bit, I think you said that cancellation rates were quite low. I was wondering if there was any variation in that by region at all?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

The cancellations actually are very low, and there's not much of a variation there. So they tend to be low in general in this industry. So I don't think I have much more to comment on that. They are quite consistent.

Jonathan Day

Analyst, HSBC Bank Plc

Q

Okay. Thanks.

Operator: We will take our next question from Delphine Brault, Oddo. Your line is open. Please go ahead.

Delphine Brault

Analyst, Oddo BHF SCA

Q

Yes. Good morning. Thanks for taking my questions. First, can you remind us and maybe be a bit more speak on the components of your bridge for your margin, and what do you need to reach the upper end of your range this year?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Thanks, Delphi. So clearly, as we said already in the CMD, they are the same components that are also driving our long-term ambition and mid-term targets. So clearly, number one, we want to grow our Services and Modernization business and clearly outgrow the company in those businesses. That has a positive impact through mix. Then secondly, in terms of our profitability, we have very focused efforts on this performance initiatives, procurement, fuel for growth, as well as then the sales and operational excellence that Philippe was already talking about. Those will have a less of an impact this year, but we expect those to ramp up and contribute more towards the mid-term targets. And then, of course, in terms of the guidance range, so the more we can grow and be closer to the top end, we expect, of course, fixed cost absorption to be better at that end, and vice versa, it's true also on the other end.

Delphine Brault

Analyst, Oddo BHF SCA

Q

Thank you. And maybe a follow up. Where does your margin in China stand right now? I know you are not disclosing it. But you're still positive?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Yes, we are positive. It's below the group average. And but it is clearly positive.

Delphine Brault

Analyst, Oddo BHF SCA

Q

Okay. Thank you.

Operator: We will take our next question from Vlad Sergievskiy, Barclays. Your line is open. Please go ahead.

Vladimir Sergievskiy

Analyst, Barclays

Q

Yes. Good morning. Thanks very much for taking my questions. On the margin guidance side, last year, you seem to have a material margin headwind from write-downs of receivable. I think you even [indiscernible] (00:35:08) last year. Thus this 2025 guidance [indiscernible] (00:35:15) write-downs in 2025?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

So first, I just wanted to correct. So we call it out as one special item in Q3. Actually, the situation improved quite a bit in Q4. So it was more in line with what we have seen in general. And it is, the guidance is including our best expectation of how we are able to also collect the money and therefore for the bad debt cost. And actually, the start of the year in China has been quite good. We've seen the liquidity developing well more in line with Q4, and our receivables in China are actually coming down.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

A

And we've also adapted our commercial focus to actually exclude some of the customer base that we saw towards not reliable, to make sure that the orders that could come in would have very high chance to be cashed in, let's say. So we've done a lot of work on that.

Vladimir Sergievskiy

Analyst, Barclays

Q

Okay. If I can, just quick follow up, the €50 million FX on [indiscernible] (00:36:26) guiding on the EBIT level, is it mostly translation or you also have [indiscernible] (00:36:33)?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

So transaction we hedge, and it's not material. This is all translation.

Vladimir Sergievskiy

Analyst, Barclays

Q

Wonderful. Thanks very much.

Operator: We will take our next question from Rizk Maida, Jefferies. Your line is open. Please go ahead.

Rizk Maida

Analyst, Jefferies International Ltd.

Q

Yes. Good morning, Philippe, Ilkka and Natalia. Thanks for your time. I'll just stick to one and a follow up. Maybe just to elaborate a bit on the tariffs, thanks for sharing the different figures. Can I just ask you about what do you think the sort of gross impact versus the net impact sort of would be, and how you the 25% coming from China, what do you expect it to be in the next call it sort of 12 months?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Well, of course, the picture actually is quite rapidly changing constantly, both on the tariff side, but of course, we're taking actions internally as well. So we have a modular supply chain so we can use different sources for component making and delivery it to US. So to me, the main message that we want to come across is, number one, it's a limited amount of the business impacted. And then second, our main aim is to be able to limit the impact to our profits to a small amount, and it's due to our actions that we take. But also we took good care in the previous time having our contractual language with our customers, including language for changes in tariff. So we're then able to transfer the cost to our customers in many cases.

Rizk Maidi

Analyst, Jefferies International Ltd.

Q

Okay. Thank you. And then secondly, just perhaps on why the guidance is so wide. I mean, most of your revenues are from maintenance and Modernization, which you have pretty good grasp on. I know the world is a very volatile sort of environment, but just 1% to 6% for a business that has nine to 12 months sort of visibility, what would you explain that wide guidance, and what would it take for it to be at the low end versus the high end? Thank you.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Well, I don't think it's much. It is the same width than last year it has been. And then we can all take a view how uncertain the world is or not. But definitely, your point is in Services and Modernization, clearly the revenue is quite resilient. But at the end of the day, New Building Solutions, we have an order book to then to deliver during the year. The main driver for uncertainty in that context is that, of course, our customers can take their projects forward faster or slower, and depending on their progress with the sites. So that's the number one uncertainty. Of course, there's also a mix impact. So let's see how fast we can grow Services versus Modernization and so forth, which is still something we need to work on. So for example, in Modernization, we continue to book orders all the way into third quarter, which we potentially then can still deliver this year.

Rizk Maidi

Analyst, Jefferies International Ltd.

Q

Thank you very much.

Operator: We will take our next question from Mikael Doepel, Nordea. Your line is open. Please go ahead.

Mikael Doepel

Analyst, Nordea

Q

Thank you. Good morning, everybody. Just a quick question on the Service sales in the quarter. So it was quite good, 8.5%, at a comparable FX. Just wondering if you can give any indication on how that is split between pricing and acquisitions and volumes, any indication on what kind of the impact was from price, in particular, but also acquisitions?

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Yeah. Certainly. So out of the 8.5%, we had more than 4% growth in units. Actually, acquisitions this quarter did not have a big impact, and that's included in the units I just said. So more than 4% from units out of the 8.5%. Then the rest actually is the value component. And to me it is about pricing, which has progressed quite well, and it's also linked to this sales and operational excellence. Second, it's actually spare parts, and spare parts are

something where we see good growth opportunity going forward. And then thirdly, it's about digital. So roughly speaking, close to half is the value component to that.

Mikael Doepel

Analyst, Nordea

Q

That's very clear. Thank you very much.

Operator: We will take our next question from John Kim, Deutsche Bank. Your line is open. Please go ahead.

John Kim

Analyst, Deutsche Bank AG (UK)

Q

Hi. [indiscernible] (00:41:36) just took my question. I withdraw.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

A

Popular question.

Operator: There are no further question on the line. So I'll now hand you back to your hosts for closing remarks.

Natalia Valtasaari

Vice President-Investor Relations, Kone Oyj

Great. Thank you, Philippe.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

Thank you.

Natalia Valtasaari

Vice President-Investor Relations, Kone Oyj

Thank you, Ilkka. And thanks to everyone who is following on the lines. Good, active questions and dialogue again. In case you do have anything that's left open that you want to talk about, please feel free to reach out to me and the team. If not, I'm wishing you a great rest of the day.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

Thank you.

Philippe Delorme

President, Chief Executive Officer & Member-Executive Board, Kone Oyj

Thank you, everyone.

Ilkka Hara

Chief Financial Officer & Member-Executive Board, Kone Oyj

Bye.

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