



蕭塘站 XIAOTANG STATION

KONE H1 2020

JULY 17, 2020

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ILKKA HARA, CFO

Q2 2020 Highlights

- Strong recovery in China
- Orders received impacted by high level of uncertainty
- Growing earnings and strong cash flow in a tough environment
- Employee engagement improved from an already high level



Q2 2020 Key figures



GROWING EARNINGS AND STRONG CASH FLOW, INCREASED UNCERTAINTY VISIBLE IN ORDERS RECEIVED

		4-6/2020	4-6/2019	Change	Comparable change
Orders received	MEUR	2,075.4	2,310.1	-10.2%	-9.4%
Order book	MEUR	8,307.3	8,407.1	-1.2%	-0.3%
Sales	MEUR	2,532.1	2,540.8	-0.3%	-0.1%
Operating income (EBIT)	MEUR	315.5	306.5	2.9%	
Operating income margin (EBIT %)	%	12.5	12.1		
Adjusted EBIT	MEUR	324.6	319.6	1.6%	
Adjusted EBIT margin	%	12.8	12.6		
Cash flow from operations (before financing items and taxes)	MEUR	592.3	323.5		
Basic earnings per share	EUR	0.47	0.46	2.3%	

1-6/2020 Key figures



RESILIENT SALES AND ADJUSTED EBIT, INCREASED UNCERTAINTY VISIBLE IN ORDERS RECEIVED

		1-6/2020	1-6/2019	Change	Comparable change
Orders received	MEUR	4,184.7	4,404.1	-5.0%	-4.8%
Order book	MEUR	8,307.3	8,407.1	-1.2%	-0.3%
Sales	MEUR	4,730.3	4,739.6	-0.2%	-0.3%
Operating income (EBIT)	MEUR	512.7	521.8	-1.8%	
Operating income margin (EBIT %)	%	10.8	11.0		
Adjusted EBIT	MEUR	530.2	548.0	-3.3%	
Adjusted EBIT margin	%	11.2	11.6		
Cash flow from operations (before financing items and taxes)	MEUR	939.2	701.1		
Basic earnings per share	EUR	0.76	0.78	-2.5%	

How has the COVID-19 crisis impacted KONE?



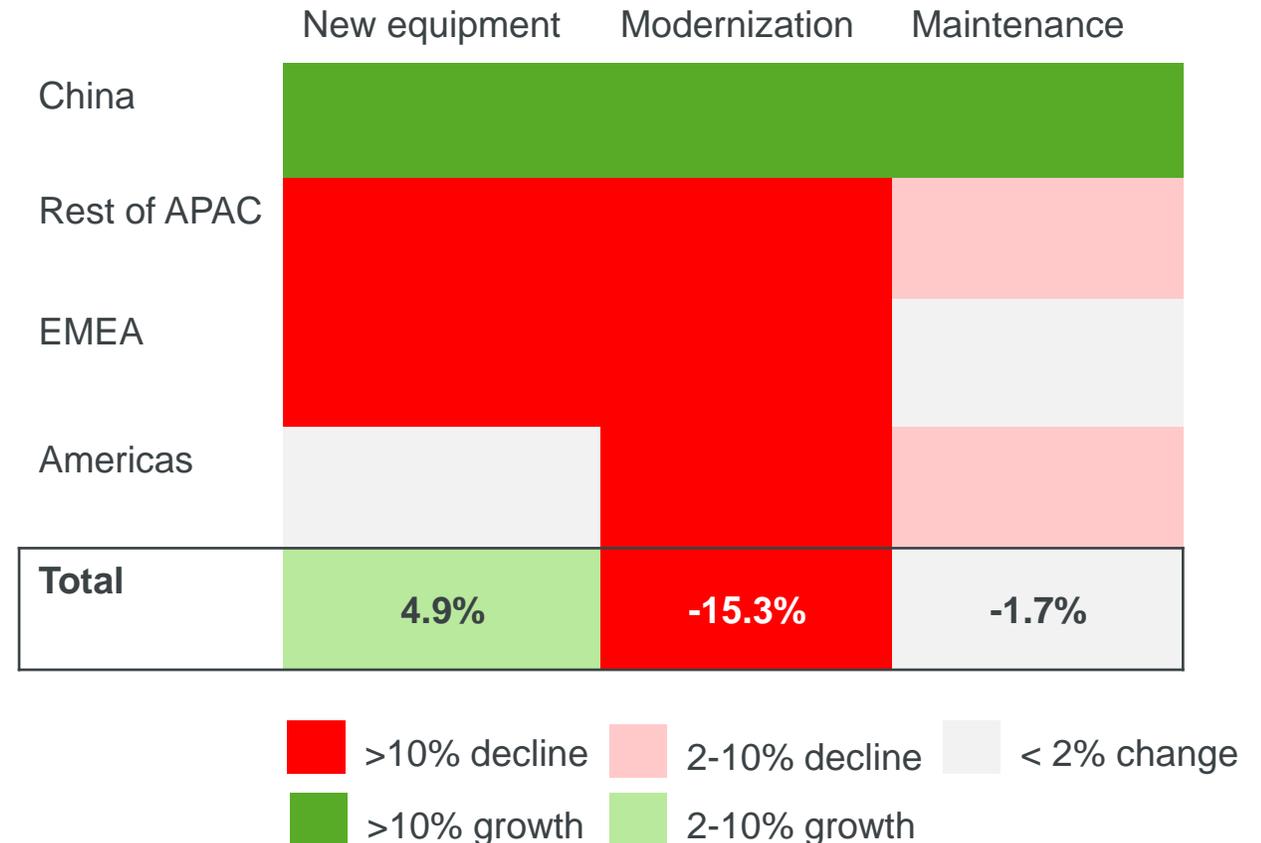
New equipment and modernization

- Strong recovery in China in Q2
- Some construction sites and buildings closed → significant impact on sales especially in some Asian countries and South Europe
- Negative impact on demand outside China

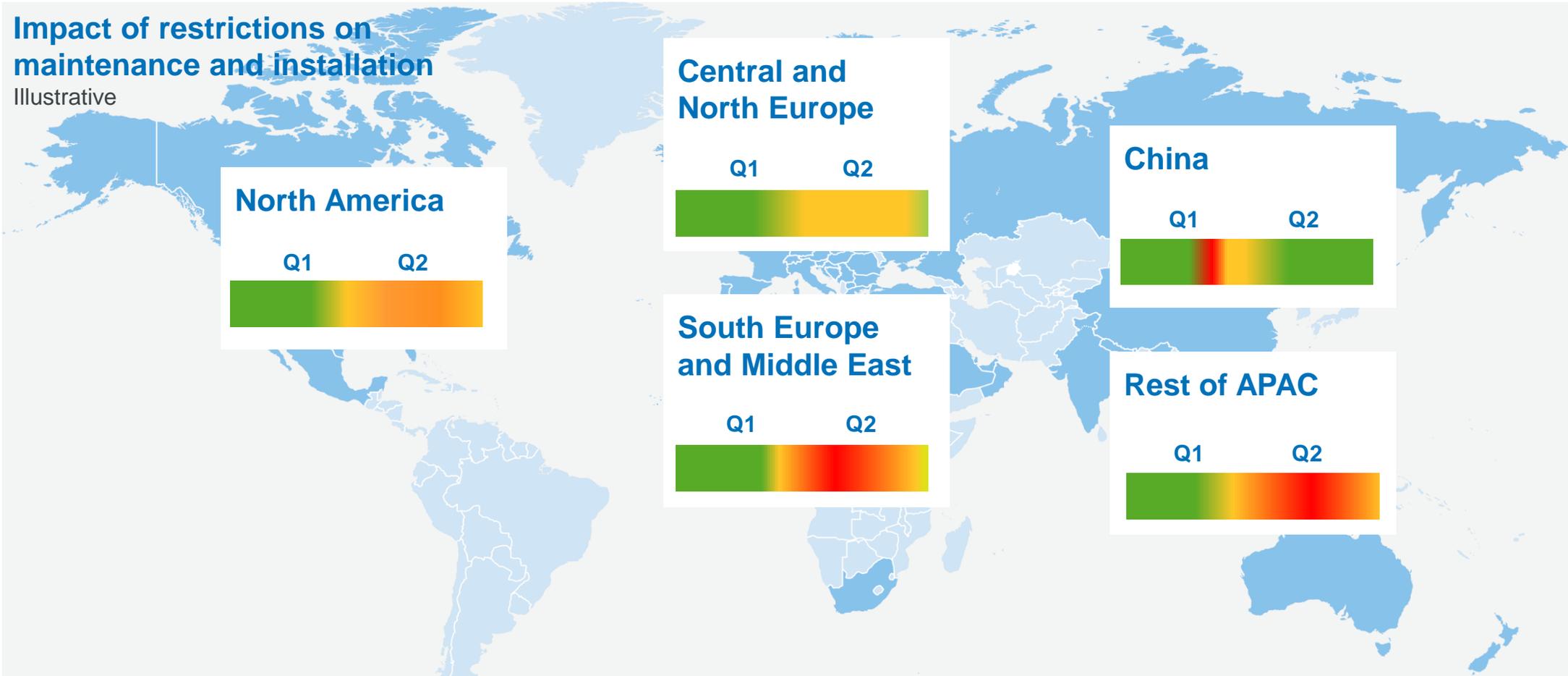
Maintenance

- Elevator and escalator maintenance deemed an essential service in most countries → contract sales resilient
- Some customer sites have been closed and there has been less discretionary activity, like repairs

KONE's sales growth at comparable FX rates in Q2



Restrictions in many markets with varying pace of easing



Focus areas during the COVID-19 crisis



WE ENSURE THE HEALTH AND WELLBEING OF OUR EMPLOYEES. WE SUPPORT OUR CUSTOMERS AND WE WILL FIND OPPORTUNITIES TO BECOME EVEN STRONGER



Safe working and business continuity



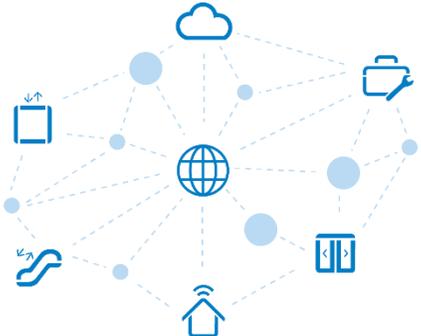
Wellbeing, engagement and care for our people



Cost containment and financial risk management



Customer activity and sales



Mid- and long-term opportunities to drive differentiation

Helping make cities and buildings smarter and safer



Free **KONE 24/7 Connected Services** for hospital facilities and care homes during the pandemic



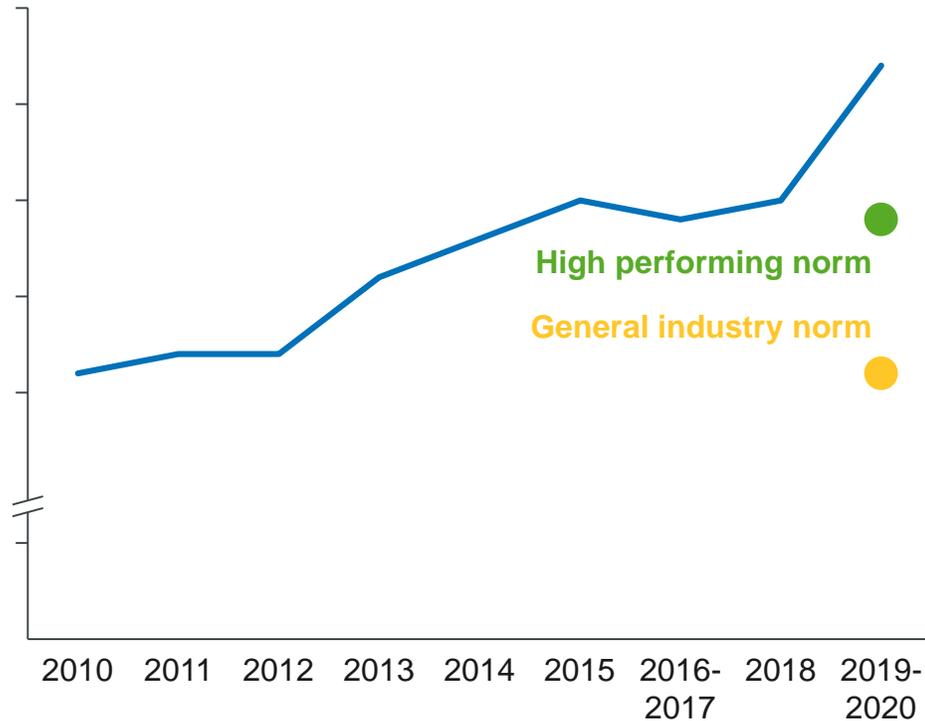
KONE DX Class elevators,
New range of **KONE Health and well-being solutions**



Helping our customers with planning for a **safe return to office premises**

Employee engagement improved from an already high level

Employee engagement index



- Employee engagement strong and above the high performing norm
- 92% participation
- High scores for strategy and direction of innovation

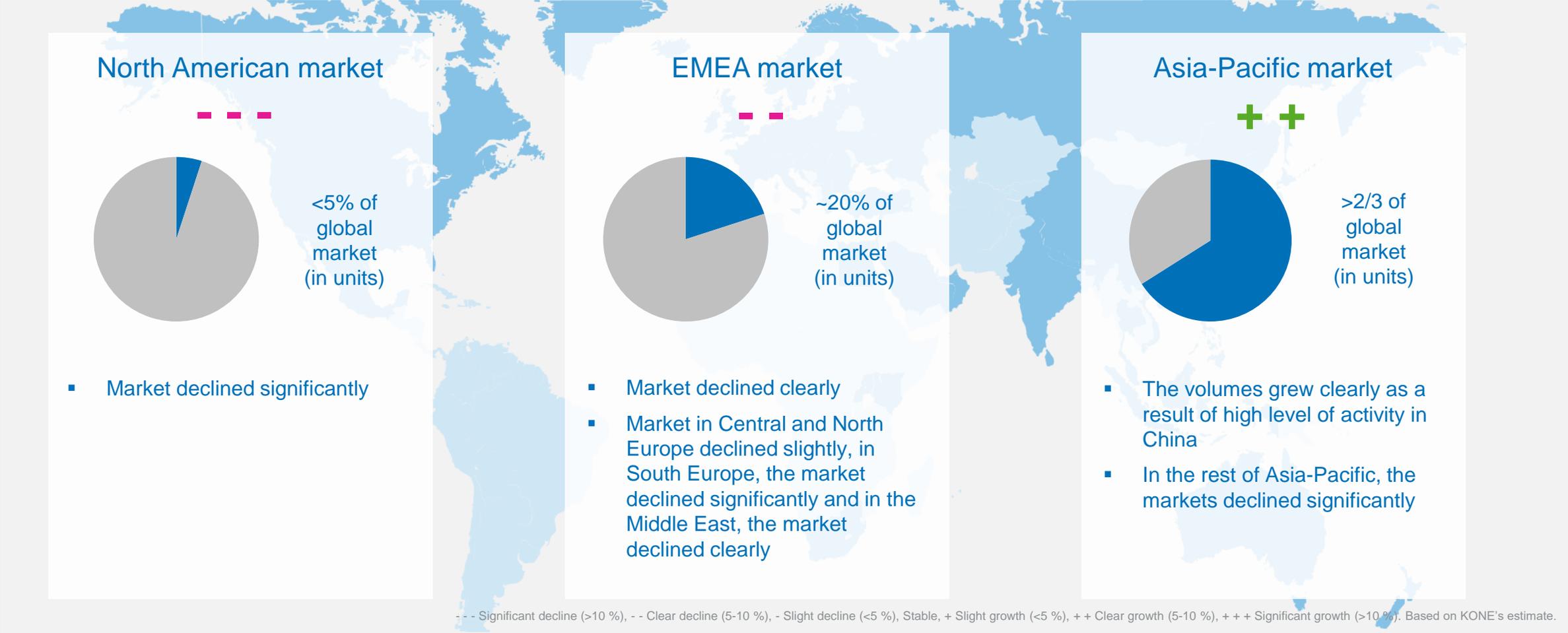
Market development



New equipment market development in Q2/2020



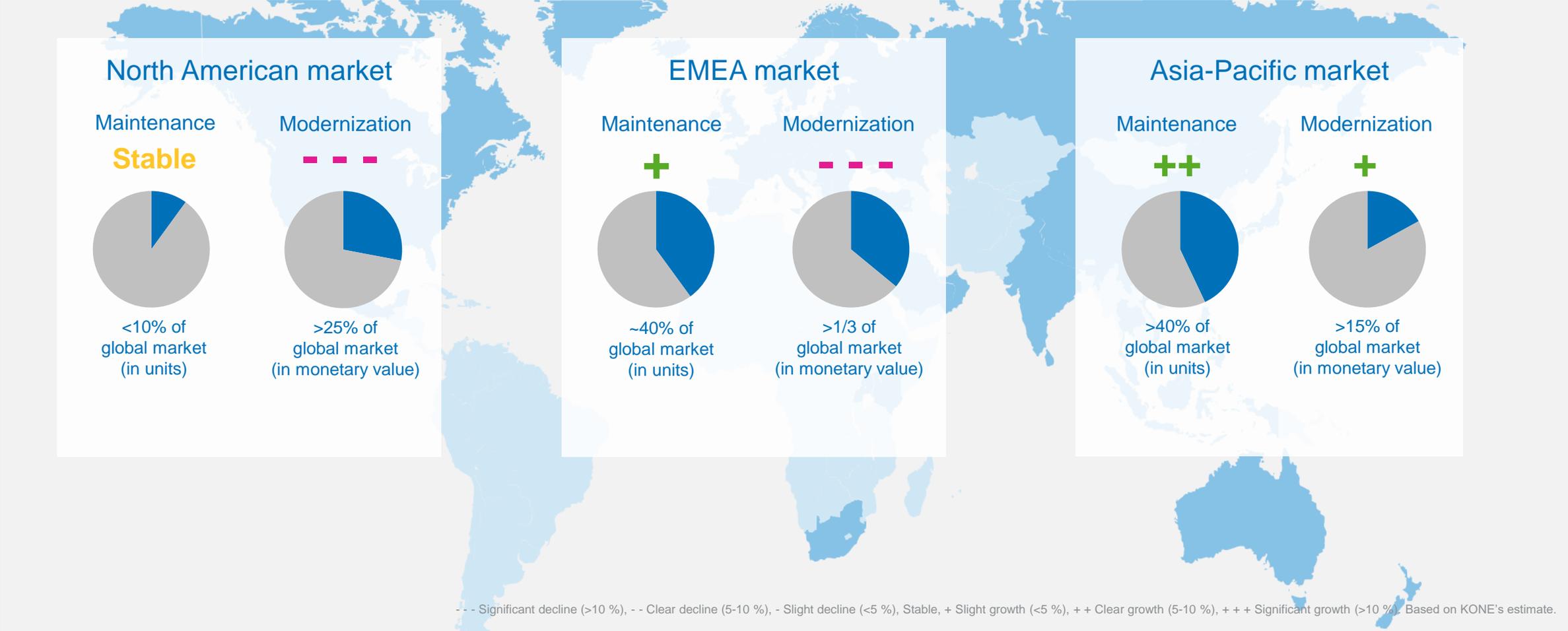
DEMAND DECREASED IN MANY PARTS OF THE WORLD, DUE TO THE INCREASED UNCERTAINTY



Service market development in Q2/2020



GLOBAL MAINTENANCE MARKET WAS RESILIENT, WHEREAS INCREASED UNCERTAINTY HAD A SIGNIFICANT IMPACT ON THE MODERNIZATION MARKETS



Chinese property market in Q2/2020



- In units ordered, the new equipment market grew significantly y-o-y
- Intensifying competition affected the pricing environment adversely



- Infrastructure investments expected to grow significantly to boost economic activity
- Government continues to restrict the activity in the residential market
- Improved liquidity situation in the market



- Real estate investment +8.5% y-o-y in June
- Residential sales volume +2.1% y-o-y and new starts +8.9% y-o-y in June
- New home prices in the 70 biggest cities +5.0% y-o-y in May



- Consolidation among property developers continues

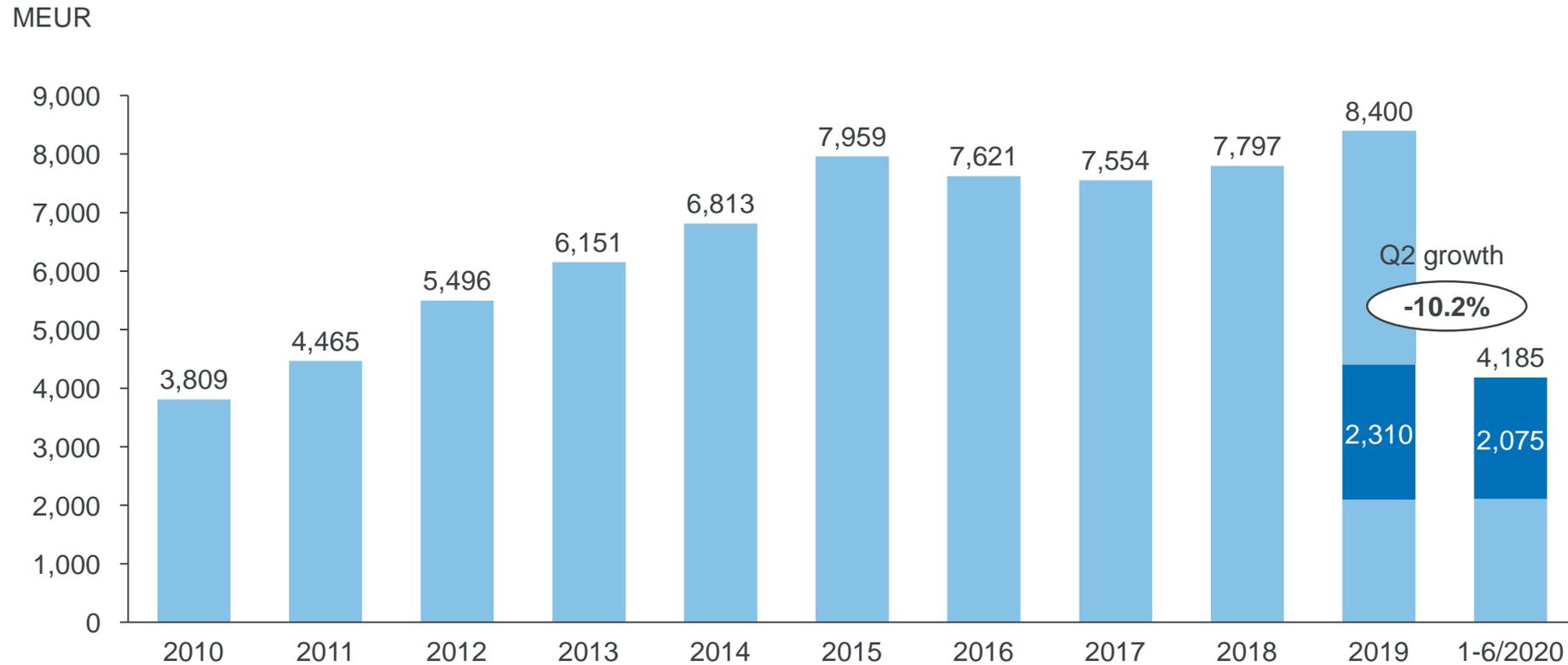
Q2 Financials



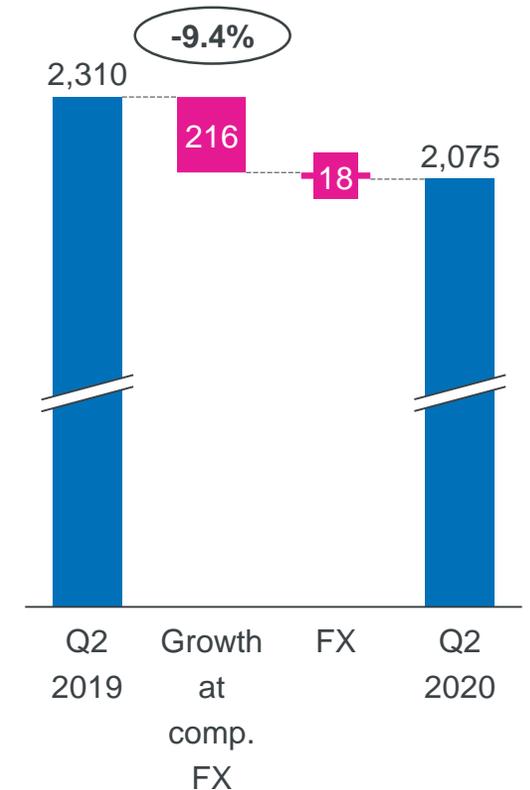
Orders received



ORDERS RECEIVED WERE STABLE IN APAC BUT DECLINED SIGNIFICANTLY IN EMEA AND THE AMERICAS



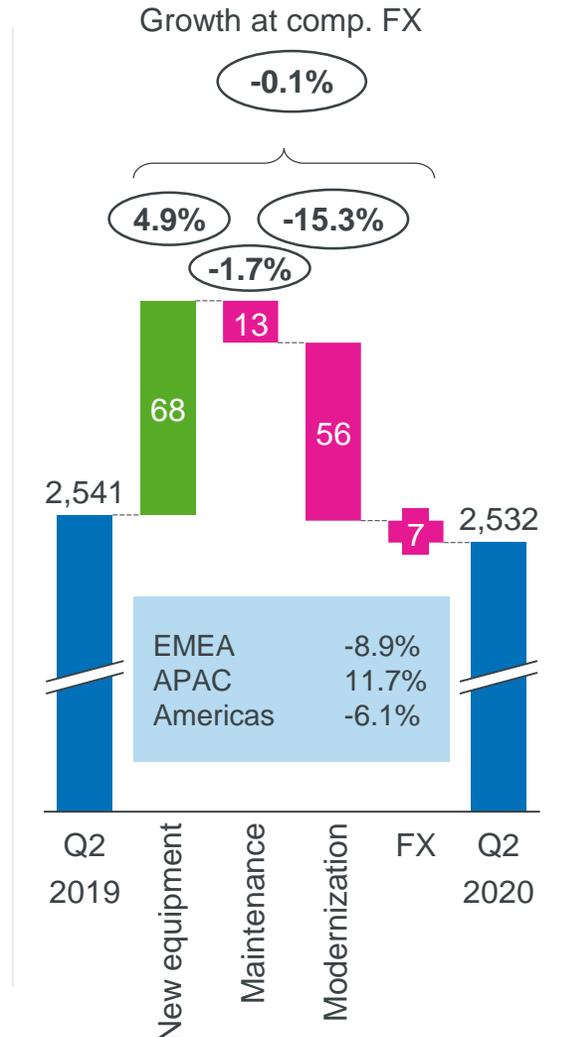
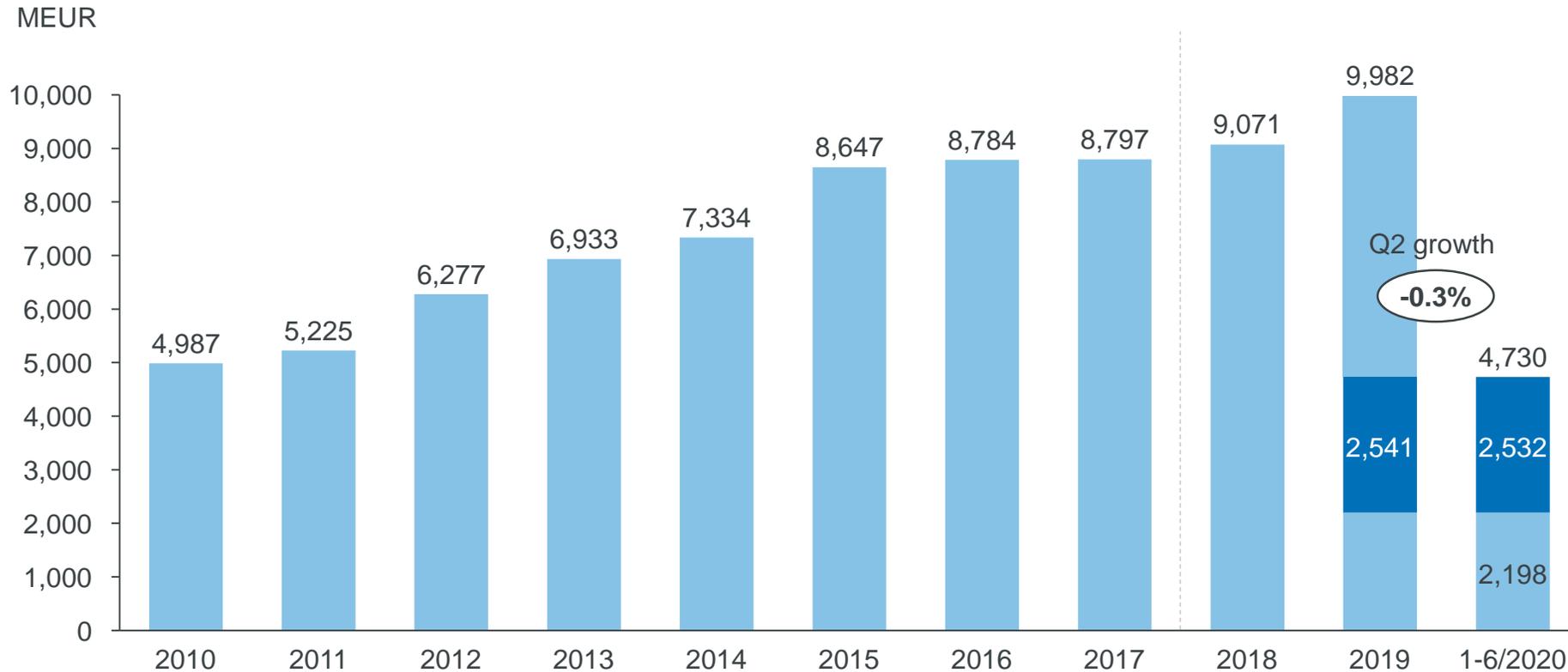
- In Q2, the margin of orders received improved slightly



Sales



STRONG RECOVERY IN CHINA OFFSET THE SALES DECLINES ELSEWHERE



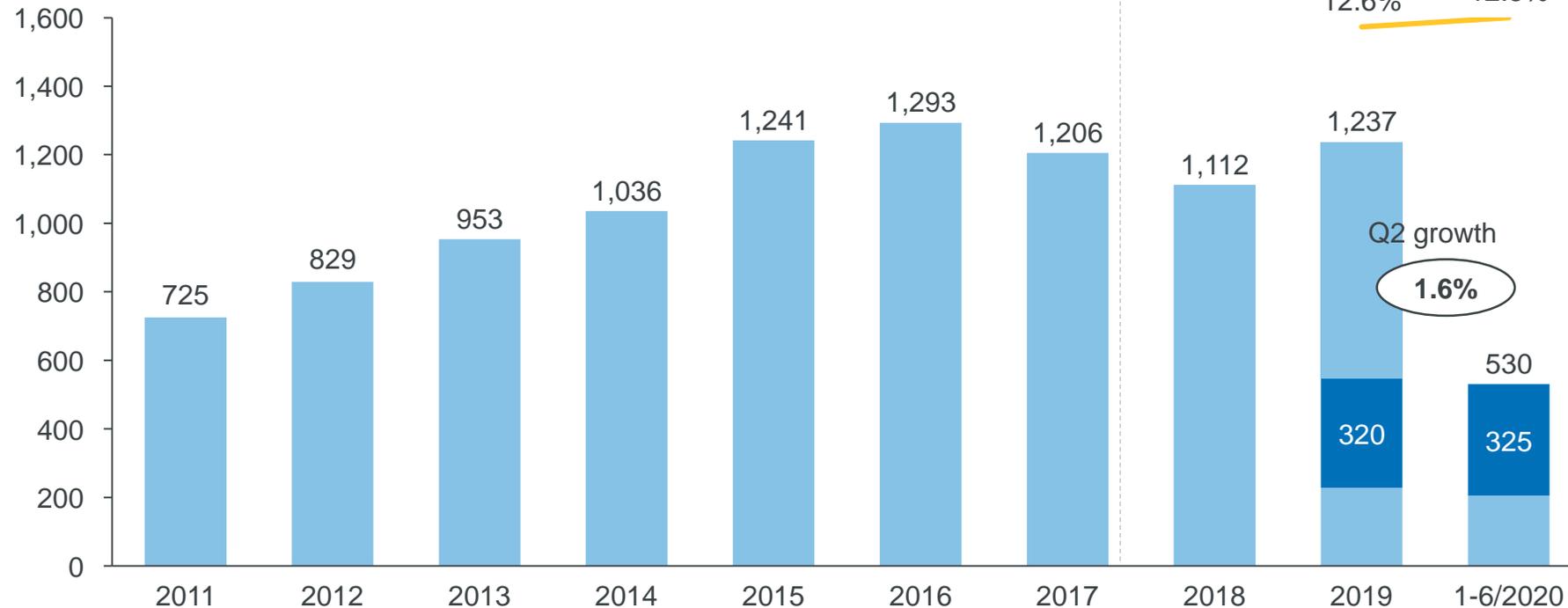
KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011-2016 are not restated and thus not fully comparable.

Adjusted EBIT

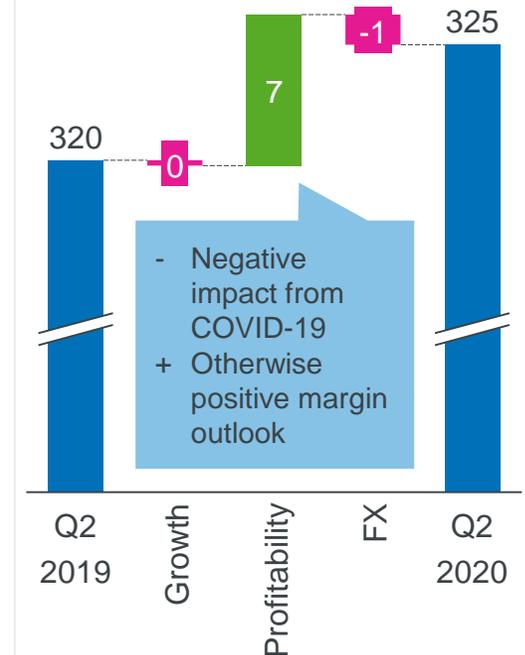
SOLID EXECUTION OF A HEALTHY ORDER BOOK IN A TOUGH ENVIRONMENT

Adjusted EBIT* and adjusted EBIT margin

MEUR; %



- In Q2, restructuring costs related to the Accelerate program: EUR 9.1 million



* Adjusted EBIT was introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program
 ** KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011-2016 are not restated and thus not fully comparable.
 17 July 17, 2020

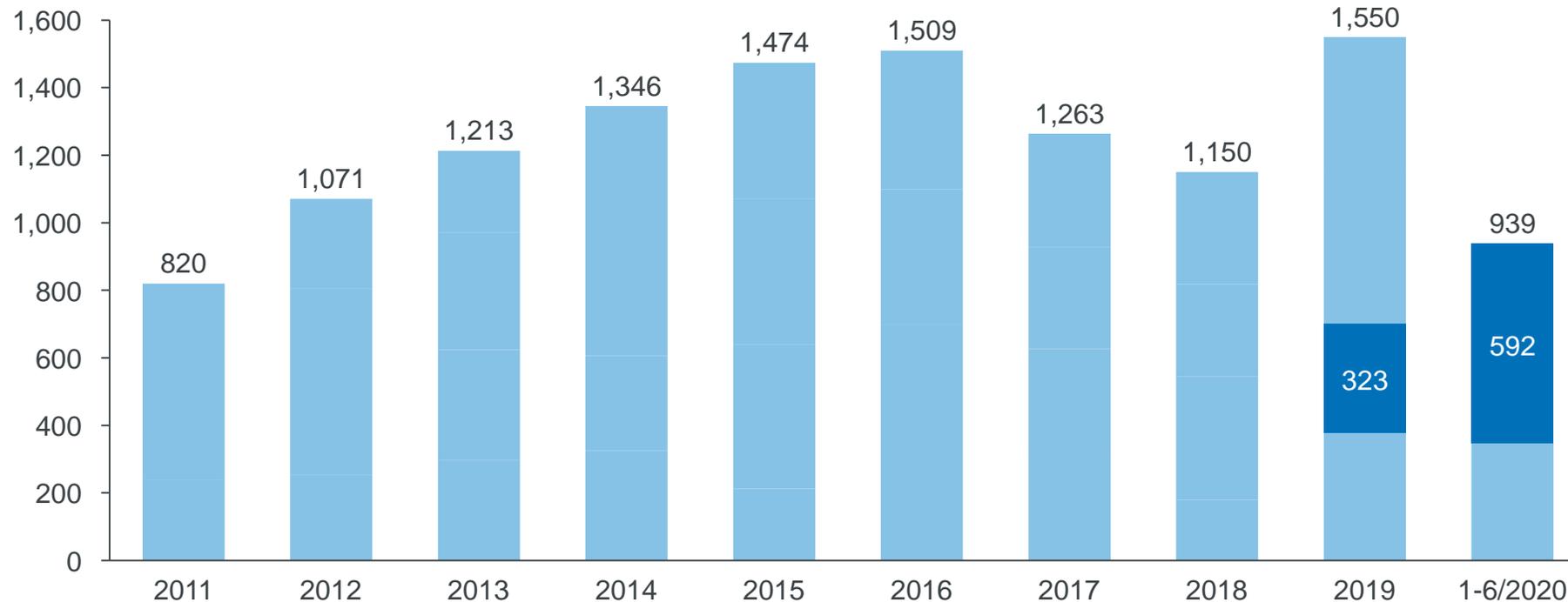
Cash flow



EXCEPTIONALLY STRONG CASH FLOW

Cash flow from operations*

MEUR



- Net working capital contributed positively to the cash flow in 1-6/2020
 - Increase in accounts payable due to strong recovery in China, impact of around MEUR 70
 - Some countries extending payment terms for e.g. VAT payments, impact of around MEUR 50

* Before financing items and taxes
KONE had adopted IFRS16 from January 1, 2019 onward which improved cash flow from operations as payments of lease liabilities were included in to cash flow from financing activities. The cash flows for comparative periods have not been restated.

Market and business outlook for 2020



Market outlook for 2020

New equipment markets

- The Chinese market is expected to be relatively stable
- In other regions, the new equipment market is expected to decline as a result of the increased economic uncertainty

Maintenance markets

- The maintenance markets are expected to be resilient, excluding the direct impacts of the lockdown measures

Modernization markets

- The fundamental growth drivers are intact but uncertainty in the market could delay decision-making in modernization projects



Business outlook for 2020 (specified)



Sales

- KONE estimates that in 2020, its sales growth will be in the range of -4 to 0% at comparable exchange rates as compared to 2019

Adjusted EBIT

- The adjusted EBIT margin is expected to decline slightly or to be stable at best

Supporting our performance

- Solid order book and maintenance base
- Improved margin of orders received
- Accelerate savings (MEUR ~50) and selective cost containment

Burdening our result

- Impacts of COVID-19 outbreak
 - Weaker cost absorption
 - Safety and business continuity measures
- Subcontracting cost increases
- Investing in our capability to sell and deliver digital services and solutions
- Around MEUR -20 impact on EBIT from exchange rates



Summary

- Solid performance in challenging environment
- Driving differentiation by investing in new solutions and services
- Facing the weaker business environment from a position of strength

例行保养

MAINTENANCE



Dedicated to People Flow™



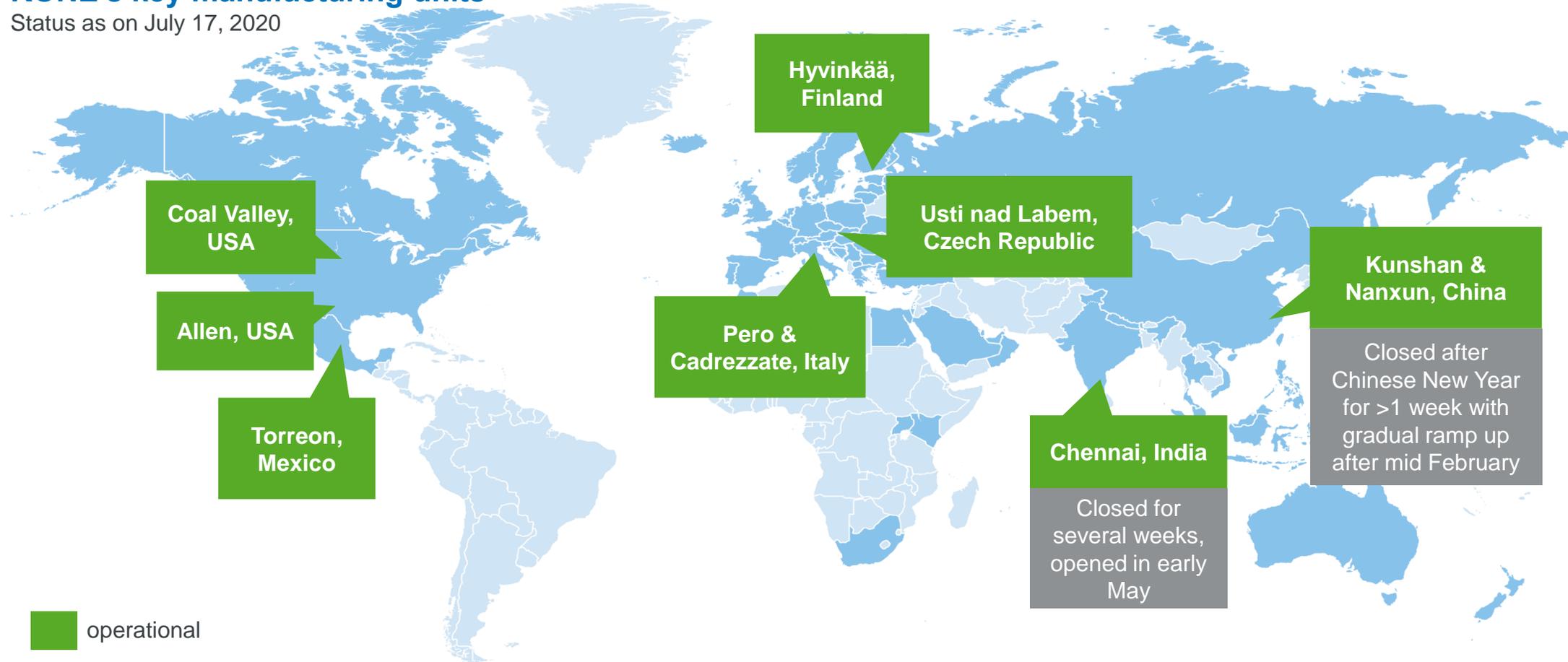
Appendix

KONE's global supply chain has remained robust during the crisis



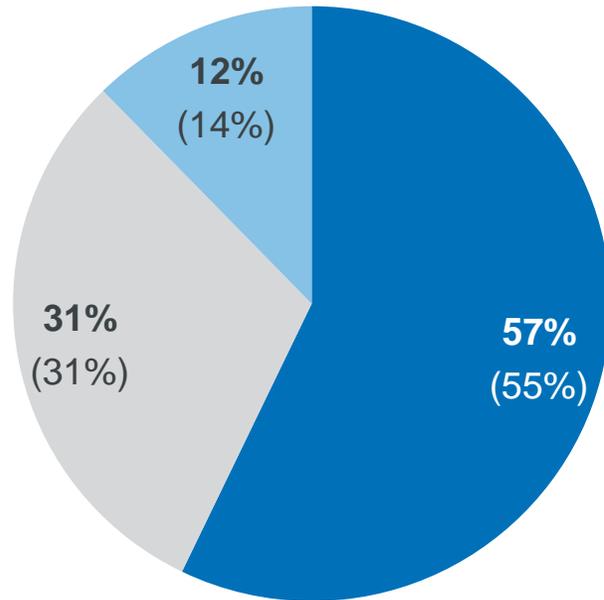
KONE's key manufacturing units

Status as on July 17, 2020



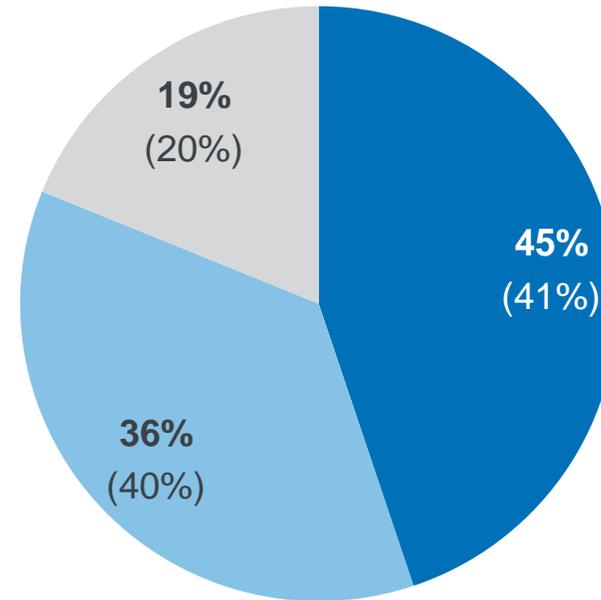
Q2/2020 Sales split

By business



- New equipment
- Maintenance
- Modernization

By area



- Asia-Pacific
- EMEA (Europe, Middle East and Africa)
- Americas

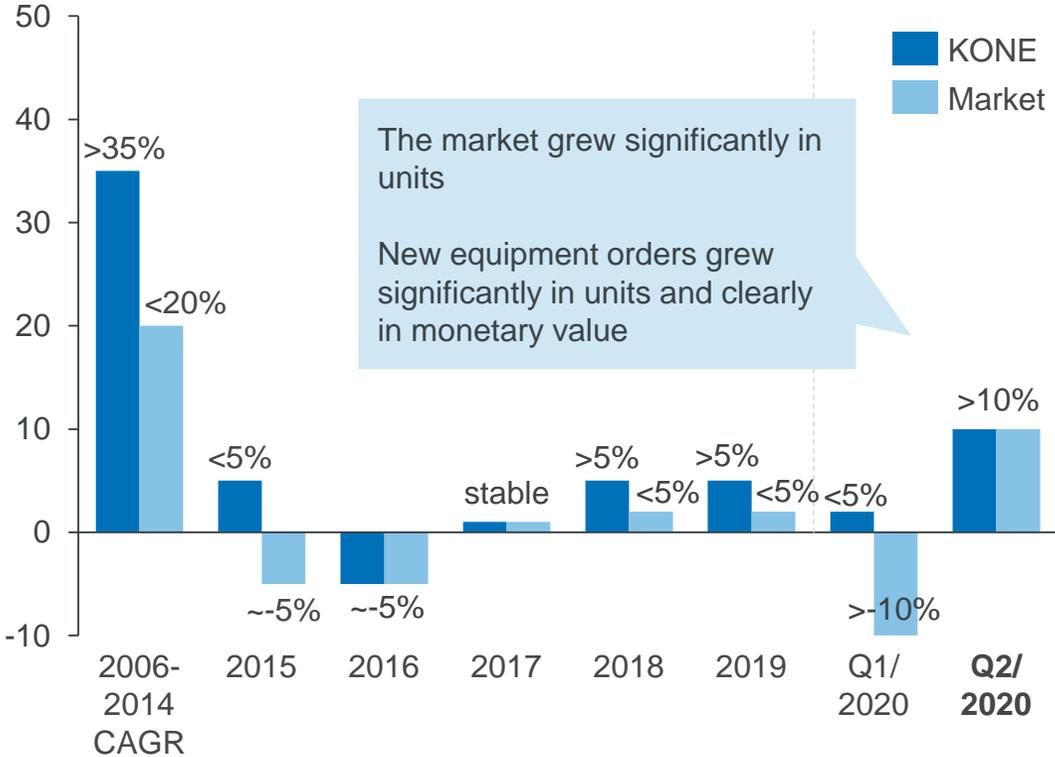
4-6/2019 figures in brackets. Figures in charts are rounded and at historical exchange rates.

KONE in China



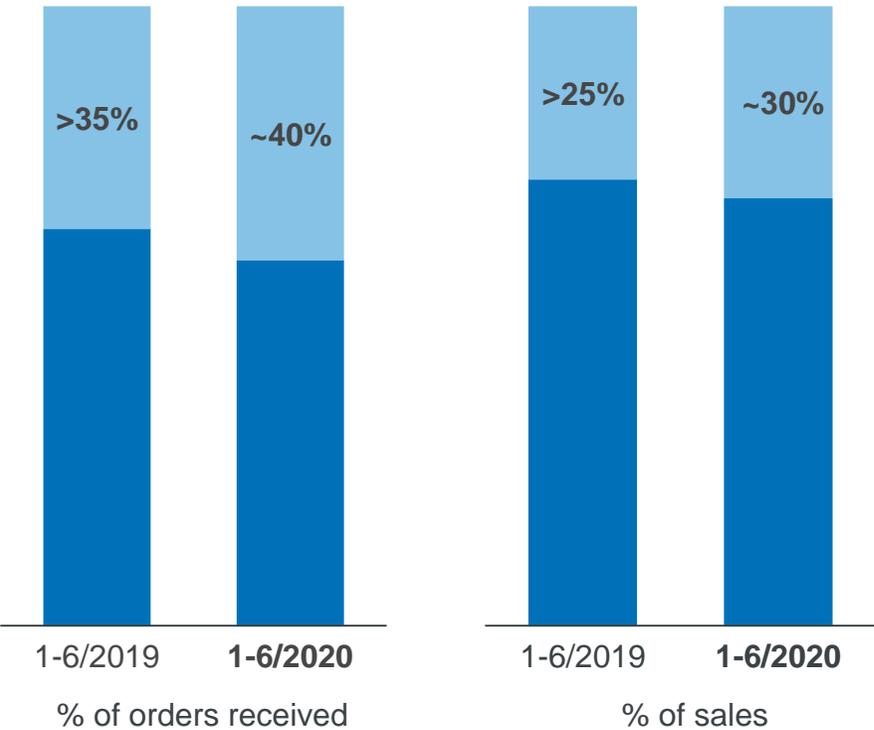
New equipment market

New equipment orders received in units vs. market development



China's share of KONE's orders received and sales

Monetary value

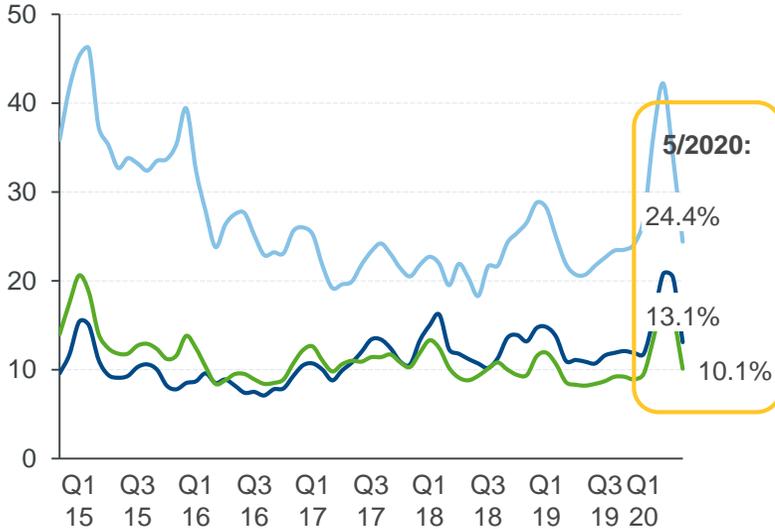


Chinese property market



Housing inventories

Newly built area for sale / monthly sales 3-m MVA

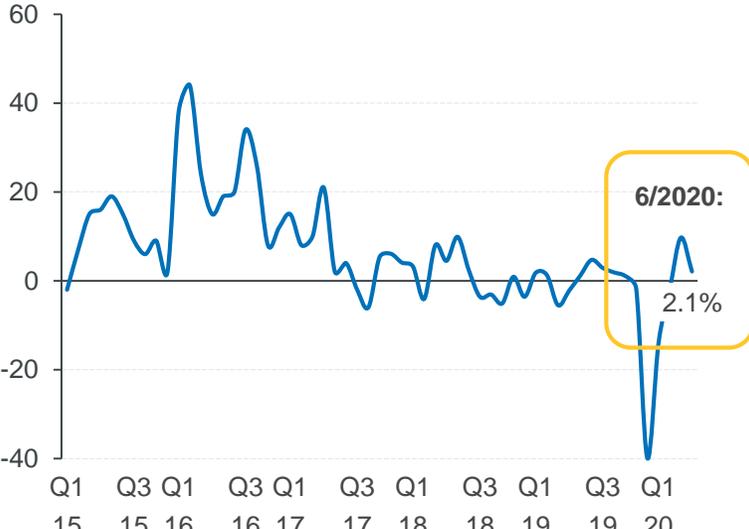


- Tier-1
- Tier-2
- sample of lower tier cities

Sources: China NBS, E-house, CREIS, KONE estimates

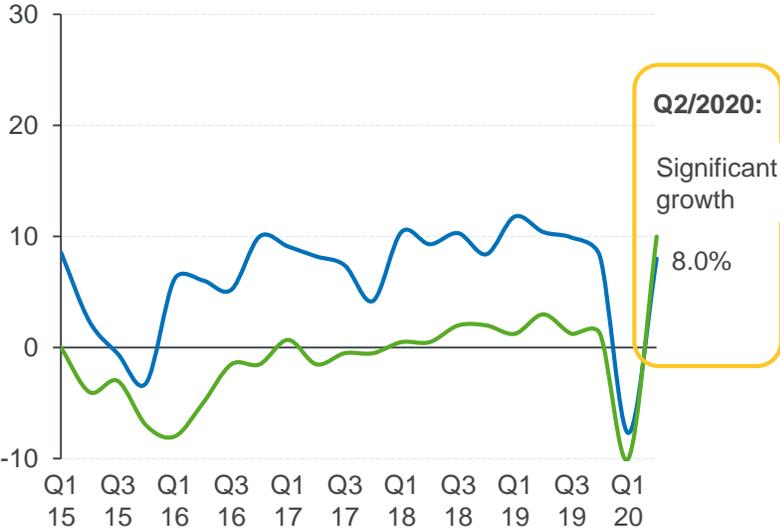
Housing sales

Sales area growth, change Y-o-Y



- Sales area growth

E&E market

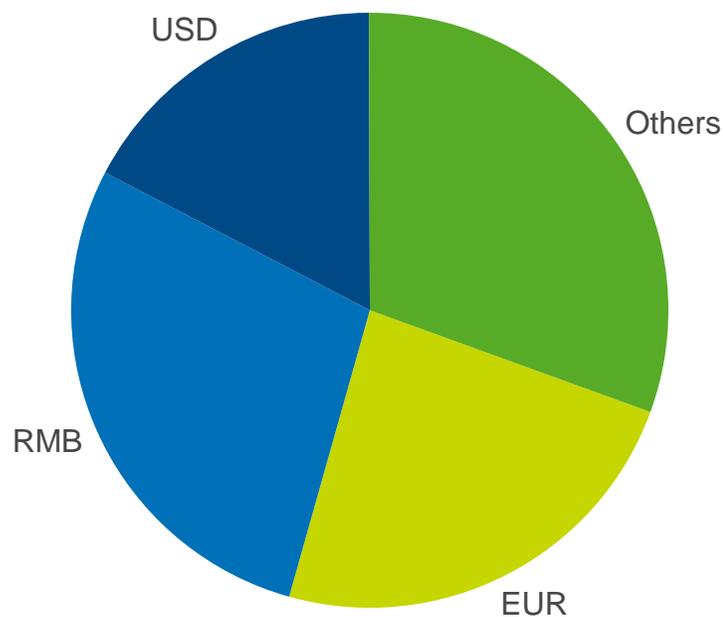


- REI Y-o-Y
- E&E market Y-o-Y in units

Currencies



Sales by currencies 1-12/2019



Currency impact

MEUR	Q2/2020	1-12/2019
Sales	-6.9	153.4
EBIT	-1.3	23.3
Orders received	-18.4	134.0

Main currencies

	Q2/2020 average	2019 average	Jun 30, 2020 spot
EUR / RMB	7.7808	7.7353	7.9219
EUR / USD	1.1061	1.1214	1.1198
EUR / GBP	0.8735	0.8773	0.9124
EUR / AUD	1.6708	1.6090	1.6344

Balance sheet – assets employed



MEUR	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
Assets employed			
Goodwill	1,361.1	1,343.5	1,366.5
Other intangible assets	219.4	251.2	248.2
Tangible assets	708.0	747.6	742.2
Investments	130.9	151.3	139.2
Net working capital	-1,057.7	-805.4	-856.0
Assets employed total	1,361.7	1,688.1	1,640.0
Financed by			
Equity	2,691.9	2,661.4	3,192.9
Net debt	-1,330.2	-973.3	-1,552.9
Equity and net debt total	1,361.7	1,688.1	1,640.0

Net working capital



MEUR	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
Net working capital			
Inventories	672.1	643.3	648.6
Advance payments received and deferred revenue	-1,811.3	-1,699.4	-1,753.8
Accounts receivable	2,200.9	2,126.1	2,232.3
Deferred assets and income tax receivables	751.0	759.8	669.6
Accruals and income tax payables	-2,008.4	-1,856.3	-1,848.0
Provisions	-128.9	-132.7	-127.1
Accounts payable	-869.9	-756.4	-809.8
Net deferred tax assets / liabilities	136.7	110.3	132.1
Net working capital total	-1,057.7	-805.4	-856.0

How is the COVID-19 crisis impacting KONE?



New equipment and modernization

- Some construction sites and buildings closed due to the lockdowns
- KONE's robust global supply chain has enabled minimal disruptions for customers
- Demand for KONE's solutions is expected to be impacted by the prevailing uncertainty

Maintenance

- Maintenance is by nature very resilient through cycles
- Elevator and escalator maintenance deemed an essential service in most countries and allowed with some limitations
- However, some customer sites are closed and there is less discretionary activity, like repairs

KONE's exposure to different customer segments

Illustrative

