

KONE Q3 2020

OCTOBER 22, 2020

HENRIK EHRNROOTH, PRESIDENT & CEO

ILKKA HARA, CFO



Q3 2020 Highlights

- Growing earnings and strong cash flow in a tough environment
- Strong development in China, mixed elsewhere
- Positive development in customer loyalty
- Raising our ambitions in sustainability



Q3 2020 Key figures



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

		7–9/2020	7–9/2019	Change	Comparable change
Orders received	MEUR	1,931.7	2,007.3	-3.8 %	0.4 %
Order book	MEUR	7,914.4	8,399.8	-5.8 %	-1.4 %
Sales	MEUR	2,587.0	2,557.6	1.1 %	4.9 %
Operating income (EBIT)	MEUR	333.1	314.2	6.0 %	
Operating income margin (EBIT %)	%	12.9	12.3		
Adjusted EBIT	MEUR	339.8	321.9	5.5 %	
Adjusted EBIT margin	%	13.1	12.6		
Cash flow from operations (before financing items and taxes)	MEUR	600.2	462.9		
Basic earnings per share	EUR	0.50	0.48	5.3 %	

1-9/2020 Key figures



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

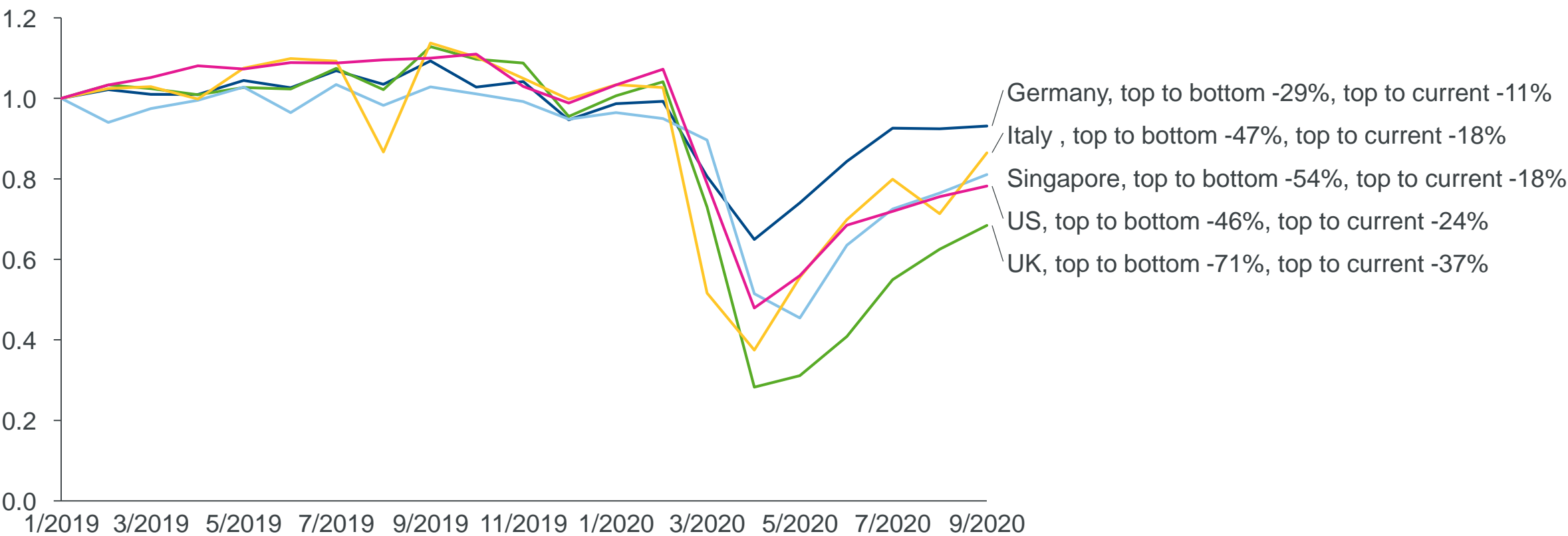
		1–9/2020	1–9/2019	Change	Comparable change
Orders received	MEUR	6,116.4	6,411.5	-4.6 %	-3.2 %
Order book	MEUR	7,914.4	8,399.8	-5.8 %	-1.4 %
Sales	MEUR	7,317.3	7,297.2	0.3 %	1.7 %
Operating income (EBIT)	MEUR	845.8	836.1	1.2 %	
Operating income margin (EBIT %)	%	11.6	11.5		
Adjusted EBIT	MEUR	869.9	869.9	0.0 %	
Adjusted EBIT margin	%	11.9	11.9		
Cash flow from operations (before financing items and taxes)	MEUR	1,539.4	1,163.9		
Basic earnings per share	EUR	1.27	1.26	0.5 %	

Elevator usage is recovering but still clearly below normal levels



Monthly average number of starts per elevator, data from connected units

Indexed, indicative as data from a limited number of units



Q3 2020 Business highlights

- Good progress with the KONE DX Class elevators and KONE 24/7 Connected Services
 - Roll out of DX Class elevators expanded to new areas and also for modernizations
 - Momentum improving in 24/7 Connected Services, 24/7 Planner introduced as an add-on
- Launch of KONE MonoSpace 300 for low-rise in the Americas
- Net promoter score up in the annual customer survey



Taking stronger action to tackle climate change by setting science-based targets



KONE PLEDGES FOR CARBON NEUTRAL OPERATIONS BY 2030

Targets for our own operations:

50% absolute reduction in GHG emissions from own operations (Scope 1 and 2) by 2030

How to get there:

- Vehicle fleet transformation
- Renewable electricity

SIGNIFICANT REDUCTIONS ACROSS THE VALUE CHAIN

Target for our value chain:

40% reduction in GHG emissions from products' materials and lifetime energy use (Scope 3) relative to products ordered by 2030

How to get there:

- Further improvements in the energy efficiency and material circularity of products
- Engaging our suppliers on the change

We have refreshed our values to define who we are and what we aspire to become



CARE

**We care for
each other**



CUSTOMER

**We are committed to
our customers' success**



COLLABORATION

**We collaborate
as one team**



COURAGE

**We perform
with courage**

Appointment to the Executive Board



Tricia Weener

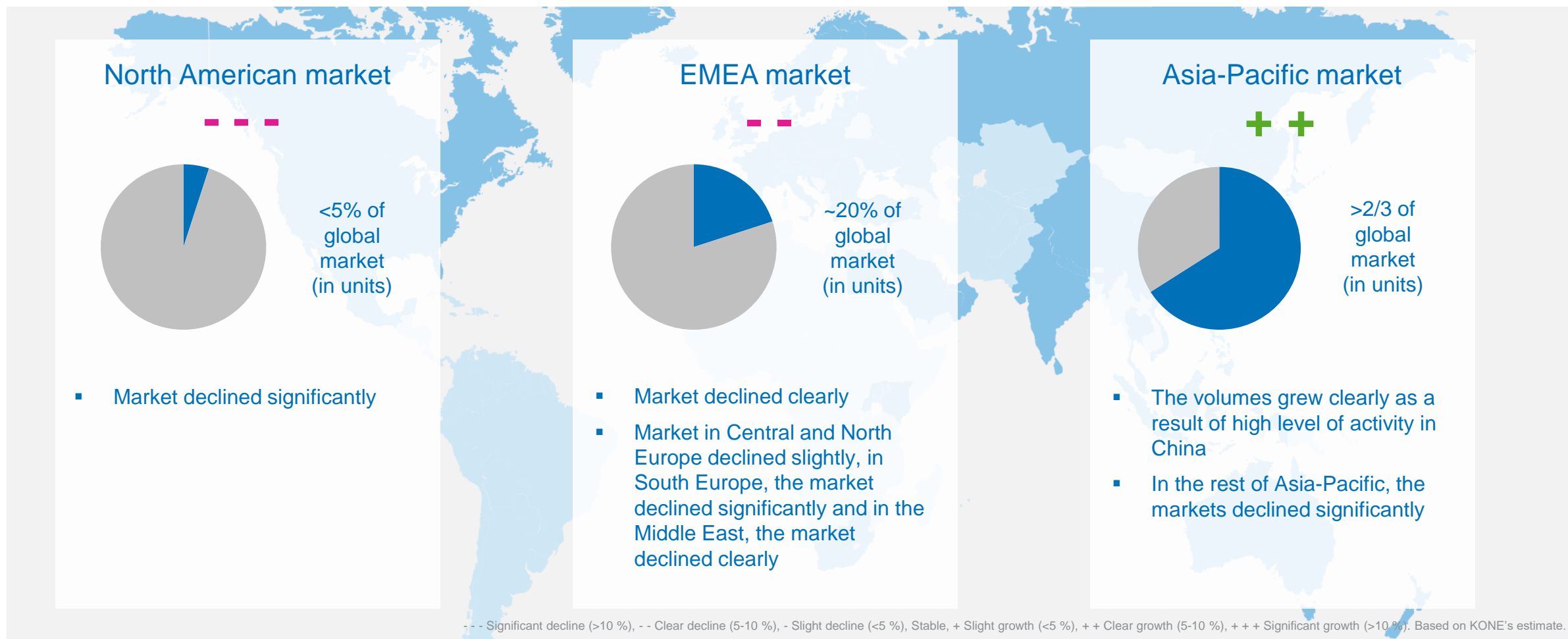
Tricia Weener has been appointed Chief Marketing Officer and Executive Vice President, Marketing and Communications, as of January 18, 2021.

Market development



New equipment market development in Q3/2020

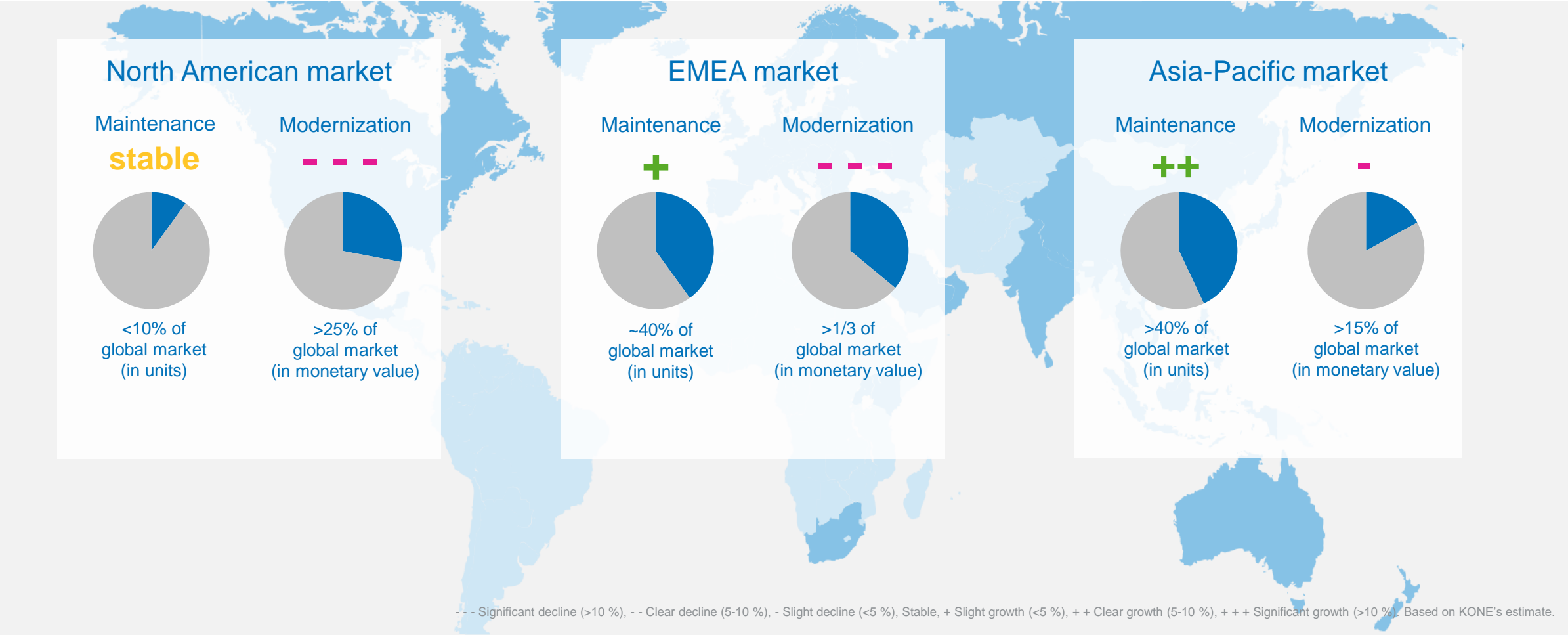
STRONG DEMAND IN CHINA, UNCERTAINTY IMPACTING DEMAND IN OTHER REGIONS



Service market development in Q3/2020



GLOBAL MAINTENANCE MARKET WAS RESILIENT, MIXED DEVELOPMENT IN THE MODERNIZATION MARKETS



Chinese property market in Q3/2020



- In units ordered, the new equipment market grew significantly y-o-y
- Pricing environment continues to be characterized by intense competition



- Exceptionally strong activity in the real estate sector in Q3. Financing environment tightening for the developers
- Infrastructure investments increased to boost economic activity



- Real estate investment +11.8% y-o-y in Q3
- Residential sales volume +9.9% y-o-y and new starts 3.9% y-o-y in Q3
- New home prices in the 70 biggest cities +4.5% y-o-y in September



- Consolidation among property developers continues

Q3 Financials



Mixed development amidst the COVID-19 pandemic

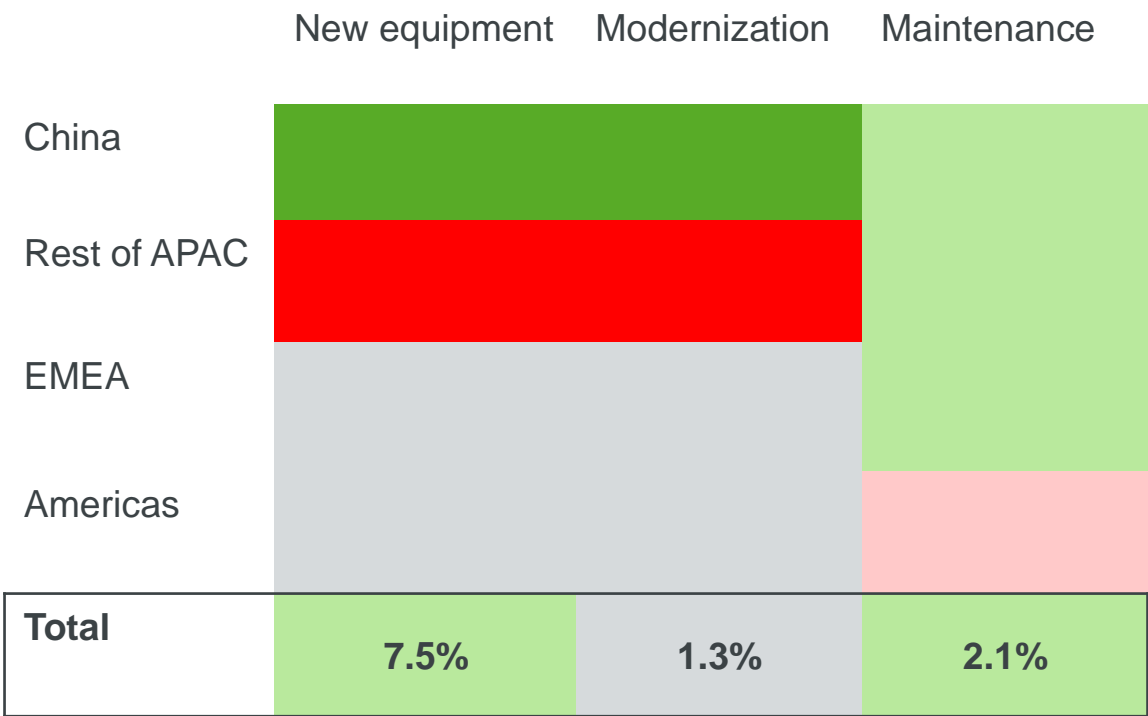


STRONG DEVELOPMENT IN CHINA, RESTRICTIONS AND UNCERTAINTY STILL IMPACTING OTHER MARKETS IN Q3

KONE’s orders received growth at comparable FX rates



KONE’s sales growth at comparable FX rates

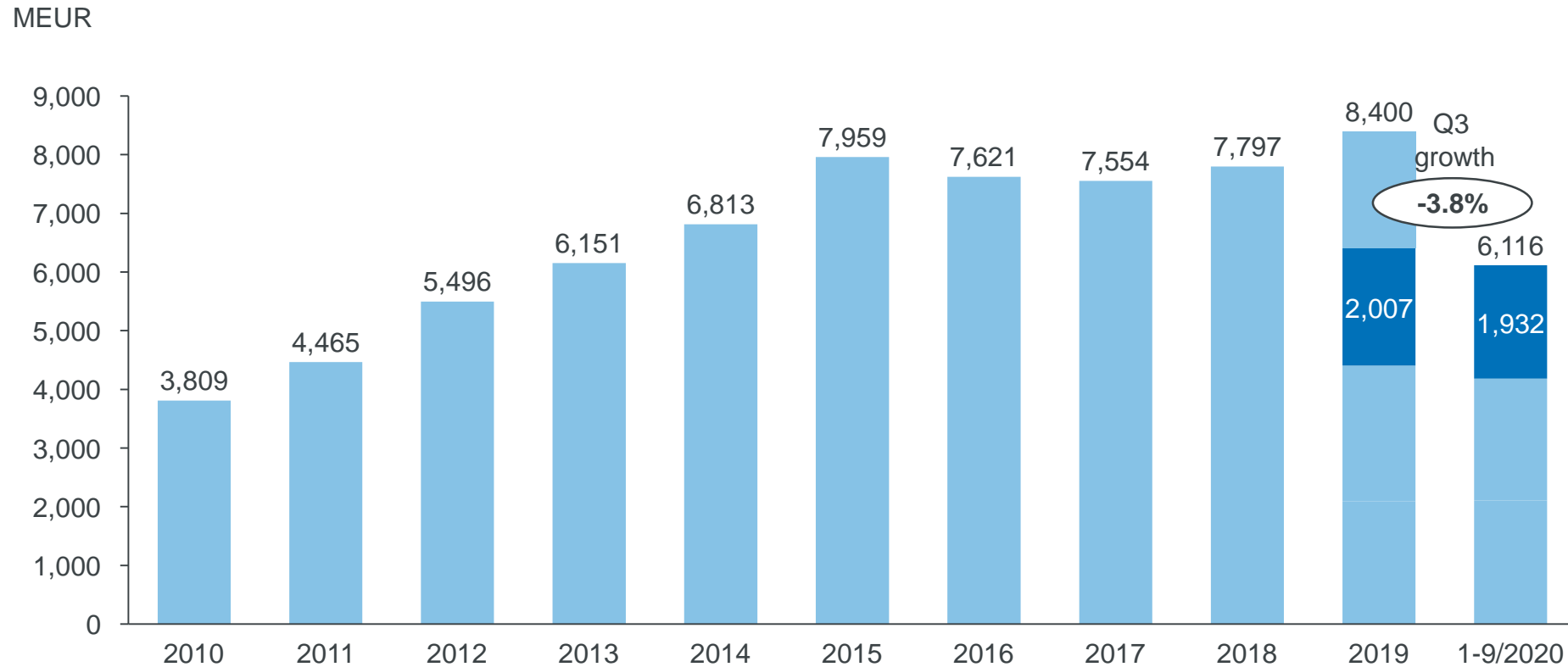


>10% decline 2-10% decline < 2% change 2-10% growth >10% growth

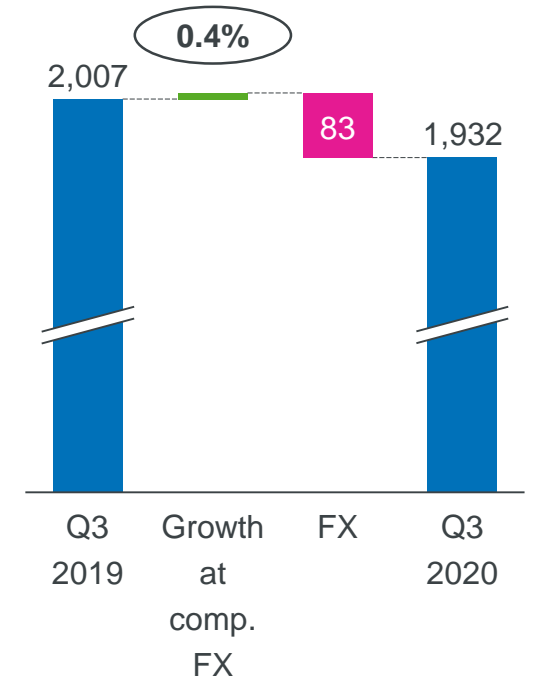
Orders received



ORDERS RECEIVED GREW SIGNIFICANTLY IN APAC BUT DECLINED CLEARLY IN EMEA AND SIGNIFICANTLY IN THE AMERICAS IN Q3



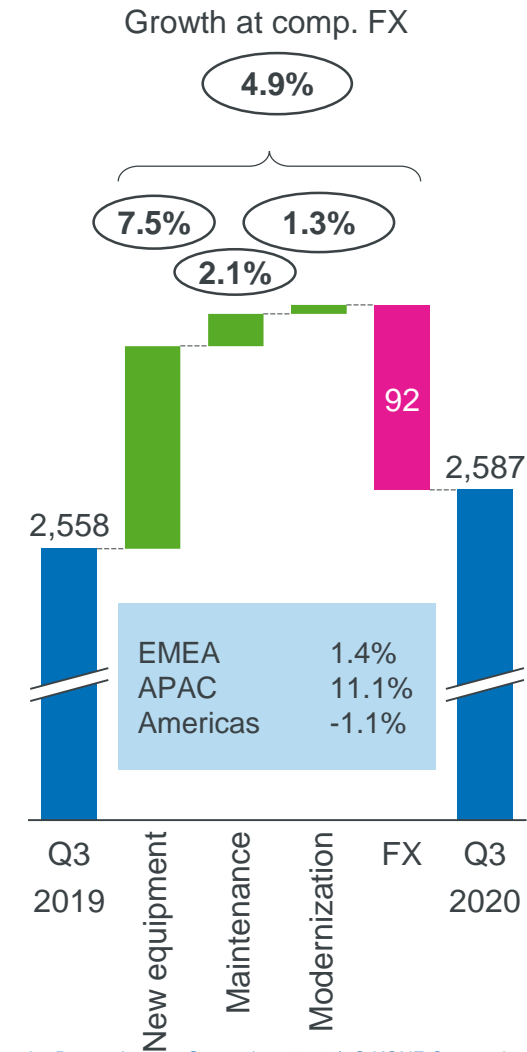
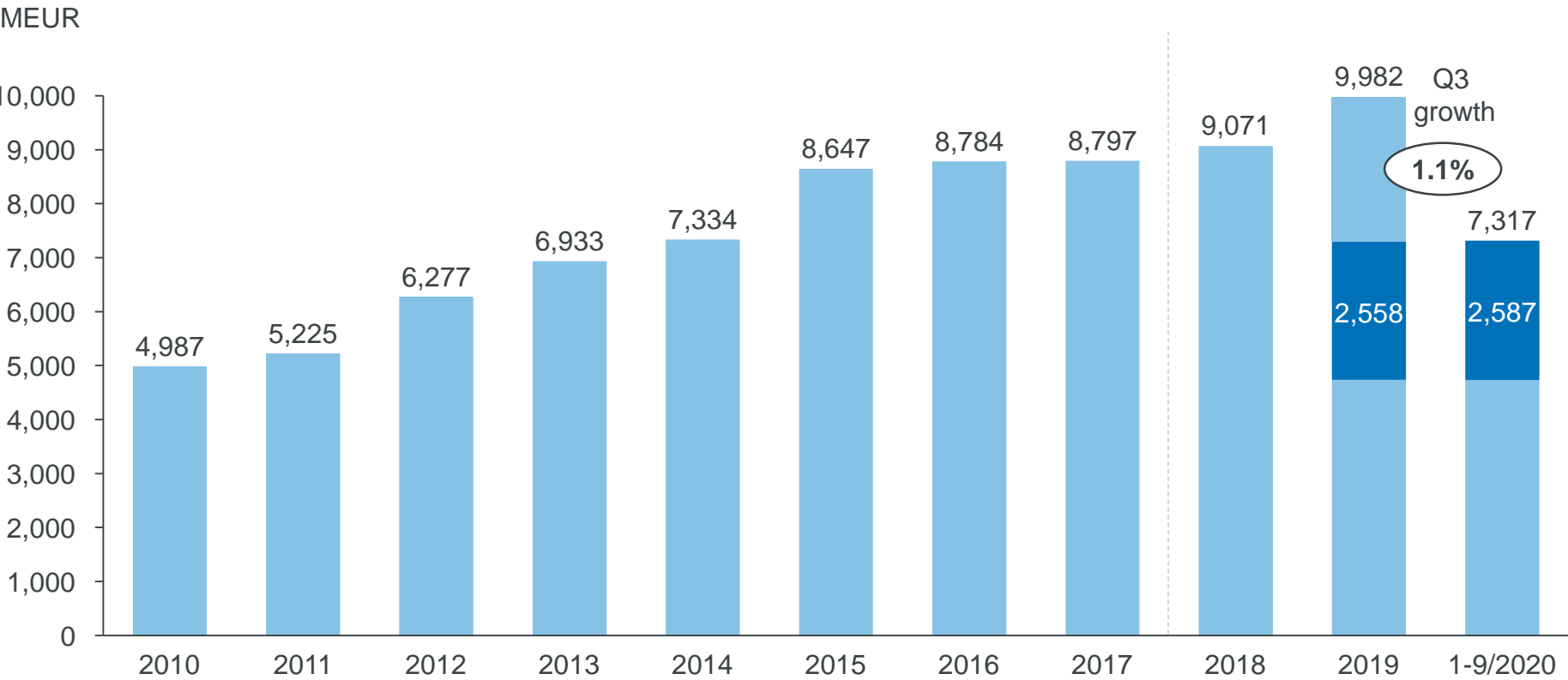
- In Q3, the margin of orders received was stable excluding the positive mix impact from China



Sales



ALL BUSINESSES GREW IN Q3, MIXED DEVELOPMENT ACROSS THE REGIONS



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.

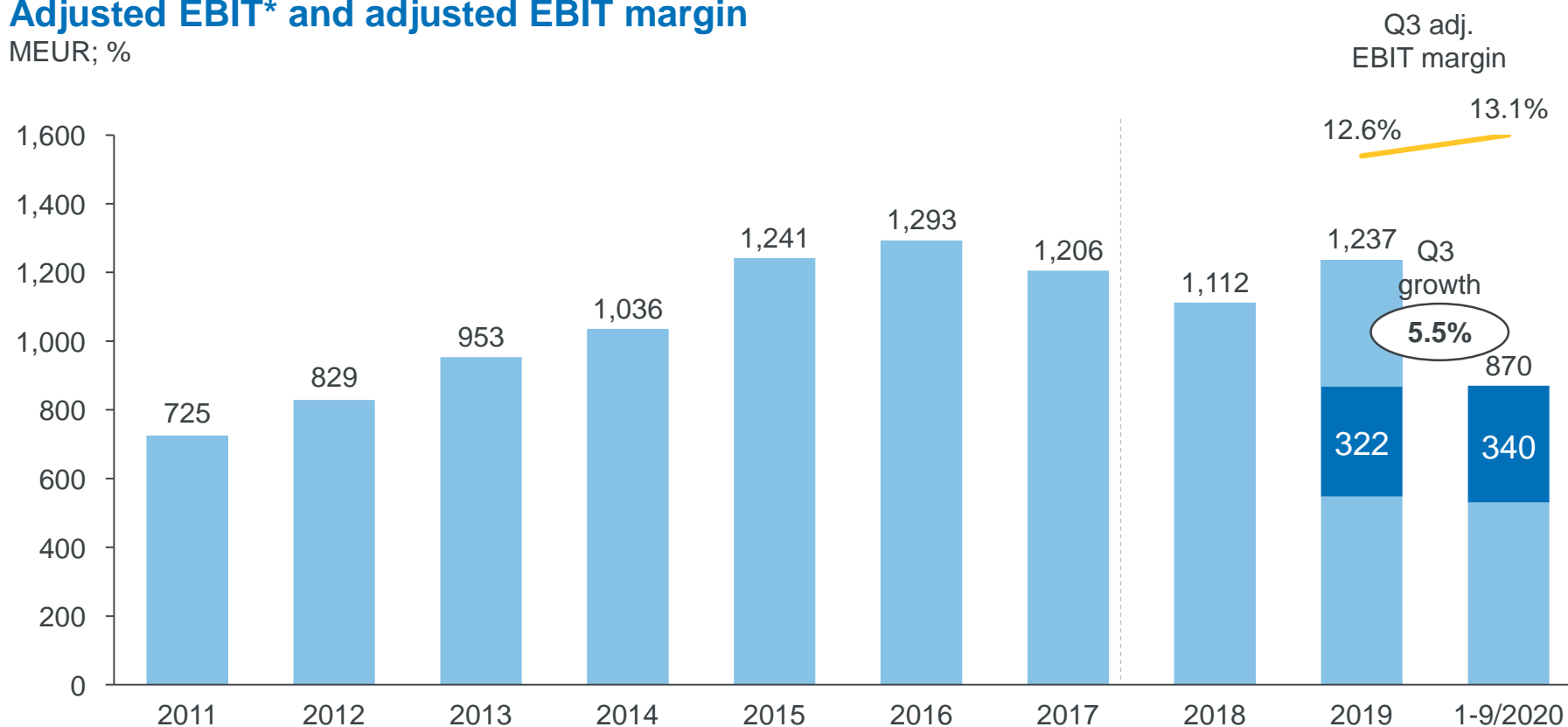
Adjusted EBIT

GOOD DEVELOPMENT IN A TOUGH ENVIRONMENT IN Q3

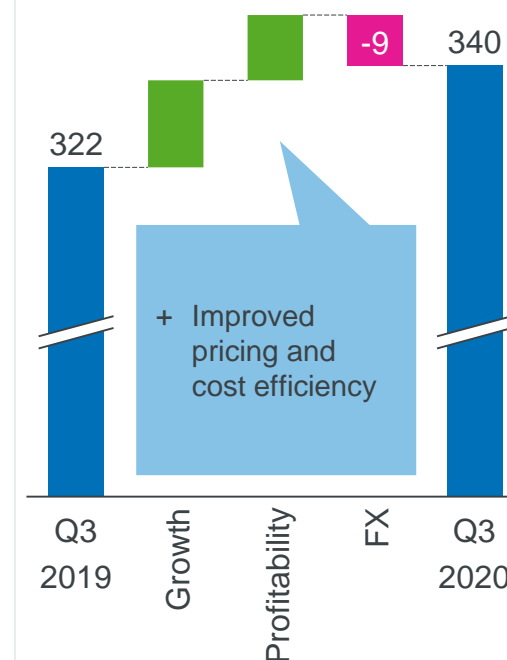


Adjusted EBIT* and adjusted EBIT margin

MEUR; %



- In Q3, restructuring costs related to the Accelerate program: EUR 6.7 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.

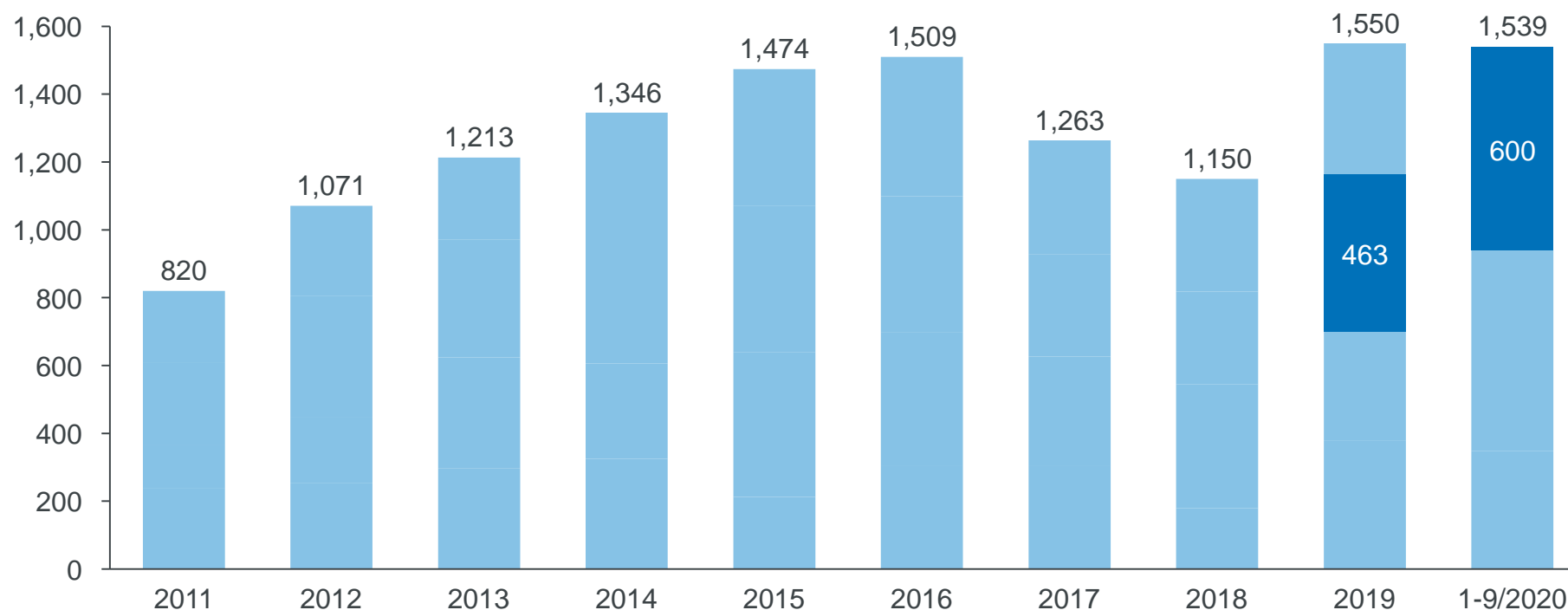
Cash flow

EXCEPTIONALLY STRONG CASH FLOW



Cash flow from operations*

MEUR



* 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.

- Net working capital contributed positively to the cash flow in 1-9/2020
 - Increase in accounts payable due to strong recovery in China
 - Some countries extending payment terms for e.g. VAT payments, impact of around MEUR 50
 - Positive development in advances received

Market and business outlook



Market outlook for 2020 (unchanged)

New equipment markets

- The Chinese market is expected to grow
- 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 (unchanged)



Sales

- KONE estimates that in 2020, its sales growth will be in the range of -1% to 2% at comparable exchange rates as compared to 2019

Adjusted EBIT

- The adjusted EBIT margin is expected to be in the range of 12.1% to 12.7%

Supporting our performance

- ⑦ Solid order book and maintenance base
- ⑦ Improved margin of orders received
- ⑦ Accelerate savings (MEUR ~50) and selective cost containment

Burdening our result

- ④ Impacts of COVID-19 outbreak
- ④ Subcontracting cost increases
- ④ Investing in our capability to sell and deliver digital services and solutions
- ④ Around MEUR -40 impact on EBIT from exchange rates

There are both headwinds and tailwinds going into 2021



BOOSTING OUR PERFORMANCE

- ① Strong order book with improved margin in the orders received
- ① Solid growth in service business
- ① Accelerate savings and performance improvements



BURDENING OUR RESULT

- ② Uncertain demand outlook and intensifying competition
- ② Geopolitical uncertainties
- ② Discretionary costs resuming to more normal levels

Summary

- Strong performance overall in the third quarter, mixed development across geographies
- Expecting solid results in 2020 despite the challenging environment thanks to the commitment of our people and the trust of our customers



Dedicated to People Flow™

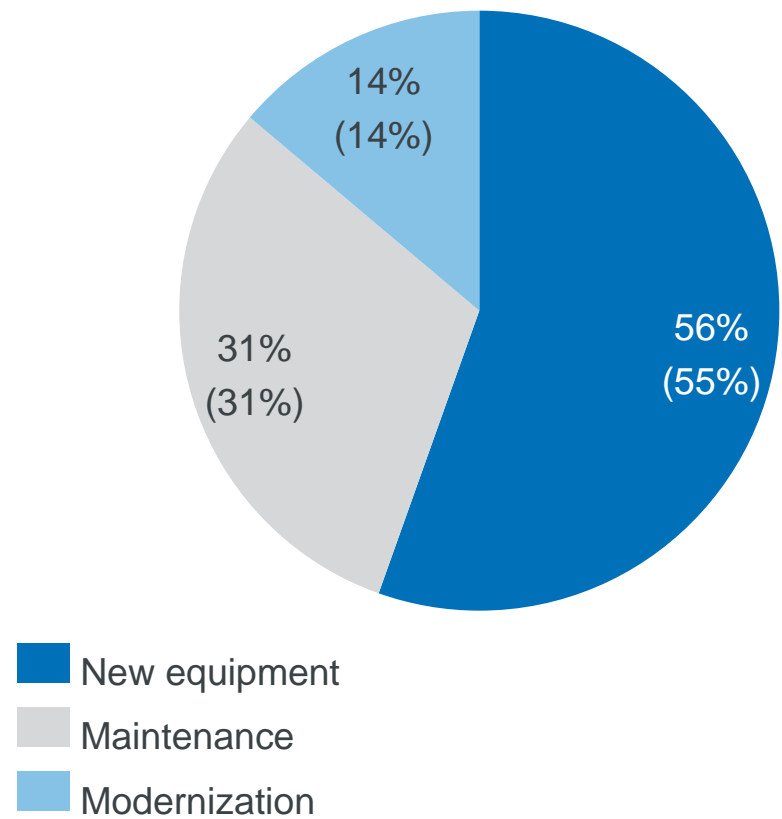


Appendix

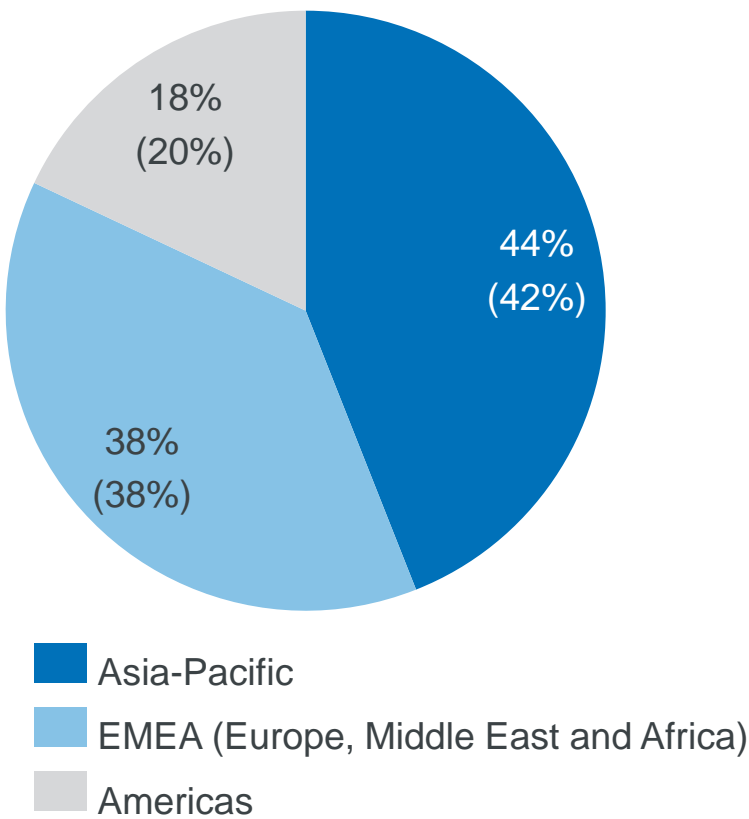
Q3/2020 Sales split



By business



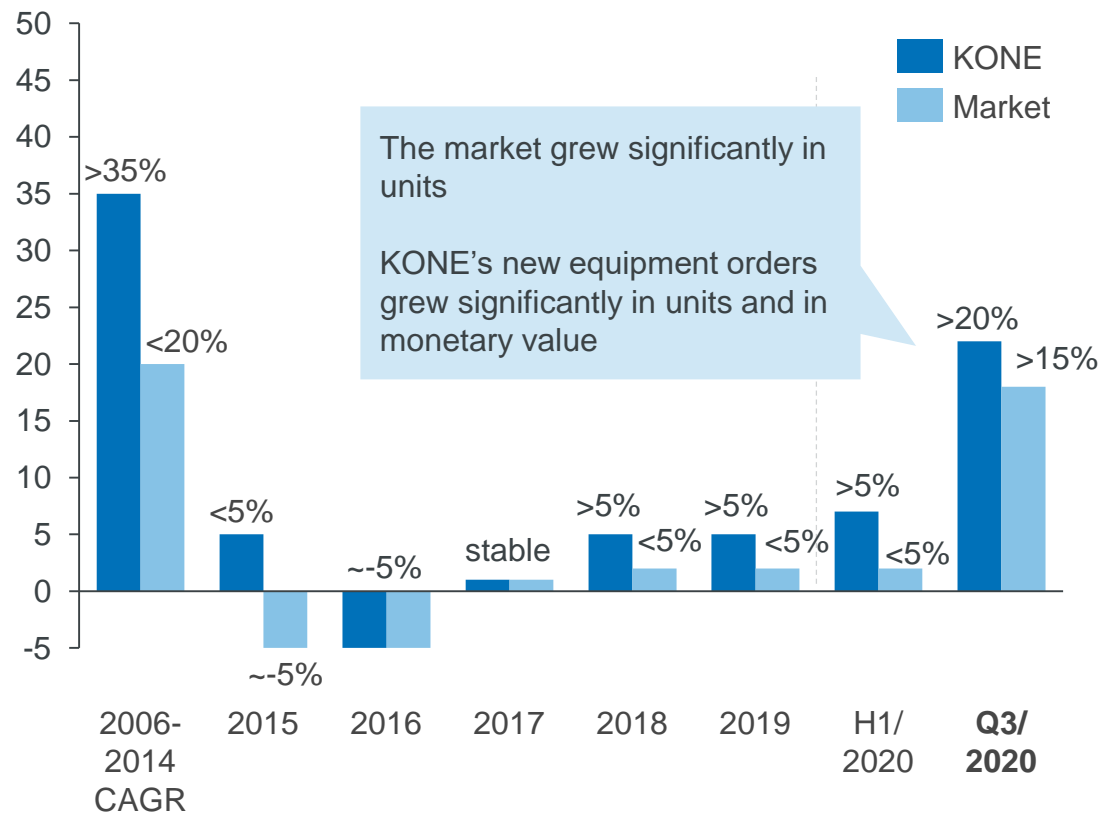
By area



7-9/2019 figures in brackets. Figures in charts are rounded and at historical exchange rates.

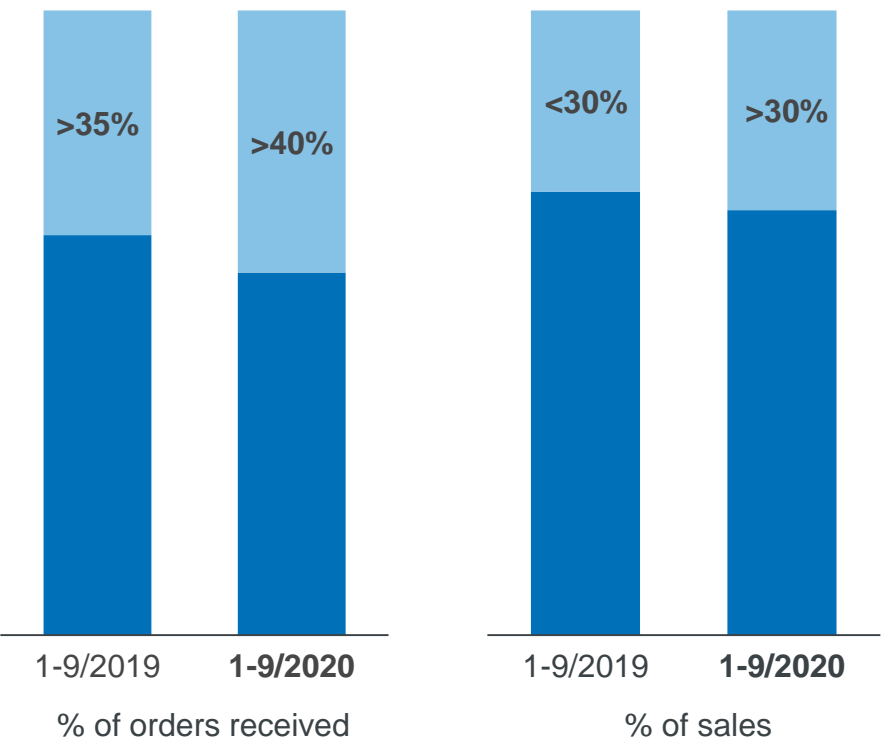
New equipment market

New equipment orders received in units vs. market development



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

Monetary value

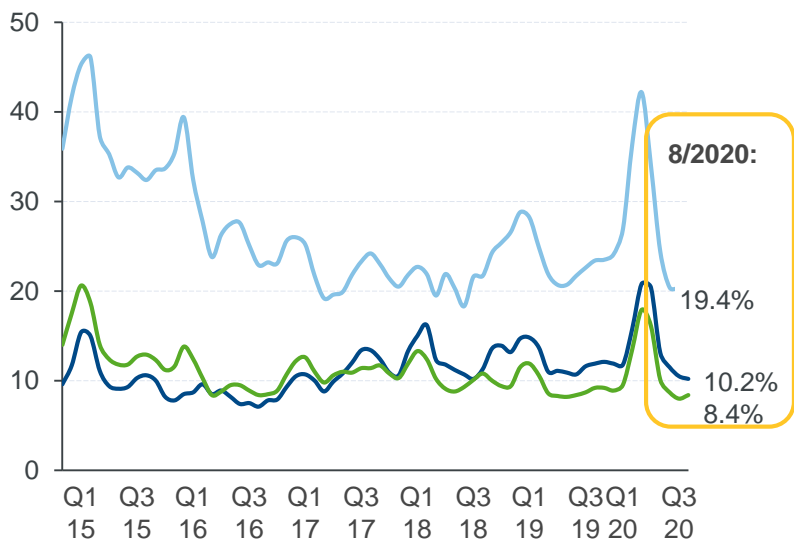


Chinese property market



Housing inventories

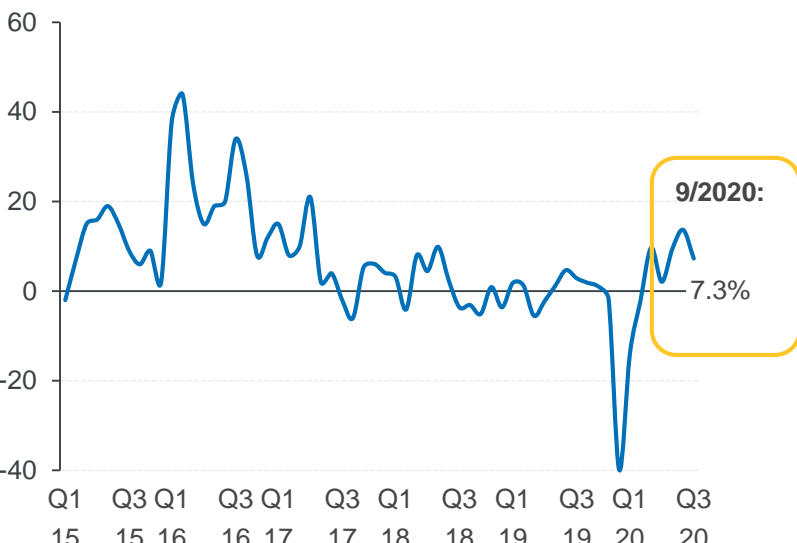
Newly built area for sale / monthly sales 3-m MVA



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

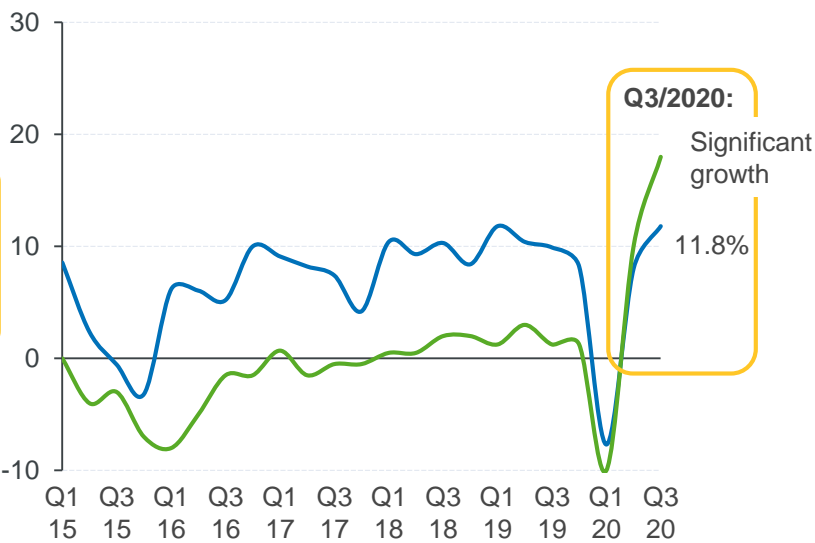
Housing sales

Sales area growth, change Y-o-Y



- Sales area growth

E&E market



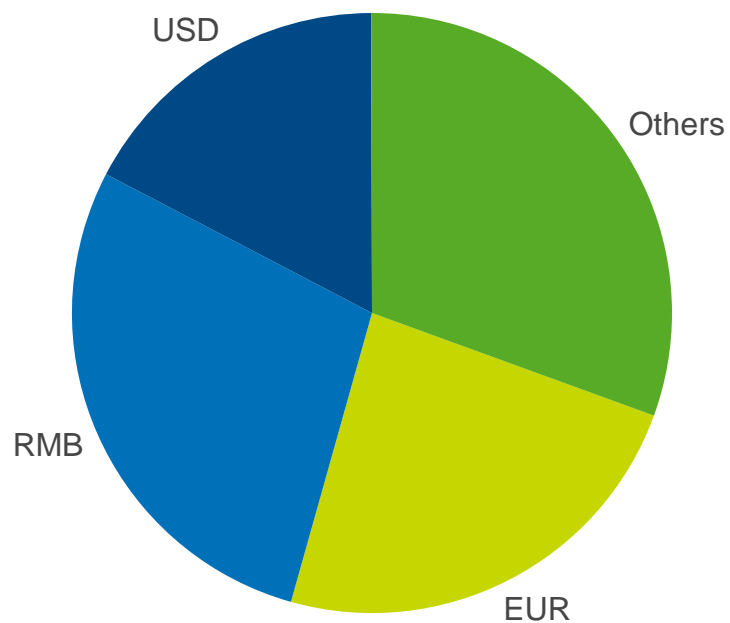
- REI Y-o-Y
- E&E market Y-o-Y in units

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

Currencies



Sales by currencies 1-12/2019



Currency impact

MEUR	Q3/2020	1-12/2019
Sales	-92.2	153.4
EBIT	-8.9	23.3
Orders received	-83.2	134.0

Main currencies

	1-9/2020 average	2019 average	Sept 30, 2020 spot
EUR / RMB	7.8872	7.7353	7.9720
EUR / USD	1.1293	1.1214	1.1708
EUR / GBP	0.8823	0.8773	0.9124
EUR / AUD	1.6609	1.6090	1.6438

Balance sheet – assets employed



MEUR	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
Assets employed			
Goodwill	1,343.5	1,379.2	1,366.5
Other intangible assets	218.4	254.4	248.2
Tangible assets	690.6	758.2	742.2
Investments	132.6	152.3	139.2
Net working capital	-1,200.3	-871.5	-856.0
Assets employed total	1,185.0	1,672.6	1,640.0
Financed by			
Equity	2,917.7	2,949.5	3,192.9
Net debt	-1,732.7	-1,276.9	-1,552.9
Equity and net debt total	1,185.0	1,672.6	1,640.0

Net working capital



MEUR	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
Net working capital			
Inventories	640.9	700.0	648.6
Advance payments received and deferred revenue	-1,817.7	-1,808.8	-1,753.8
Accounts receivable	2,133.9	2,182.0	2,232.3
Deferred assets and income tax receivables	802.7	815.4	669.6
Accruals and income tax payables	-2,092.8	-1,961.8	-1,848.0
Provisions	-138.7	-139.3	-127.1
Accounts payable	-873.0	-771.0	-809.8
Net deferred tax assets / liabilities	144.4	112.1	132.1
Net working capital total	-1,200.3	-871.5	-856.0