

KONE CMD 2013

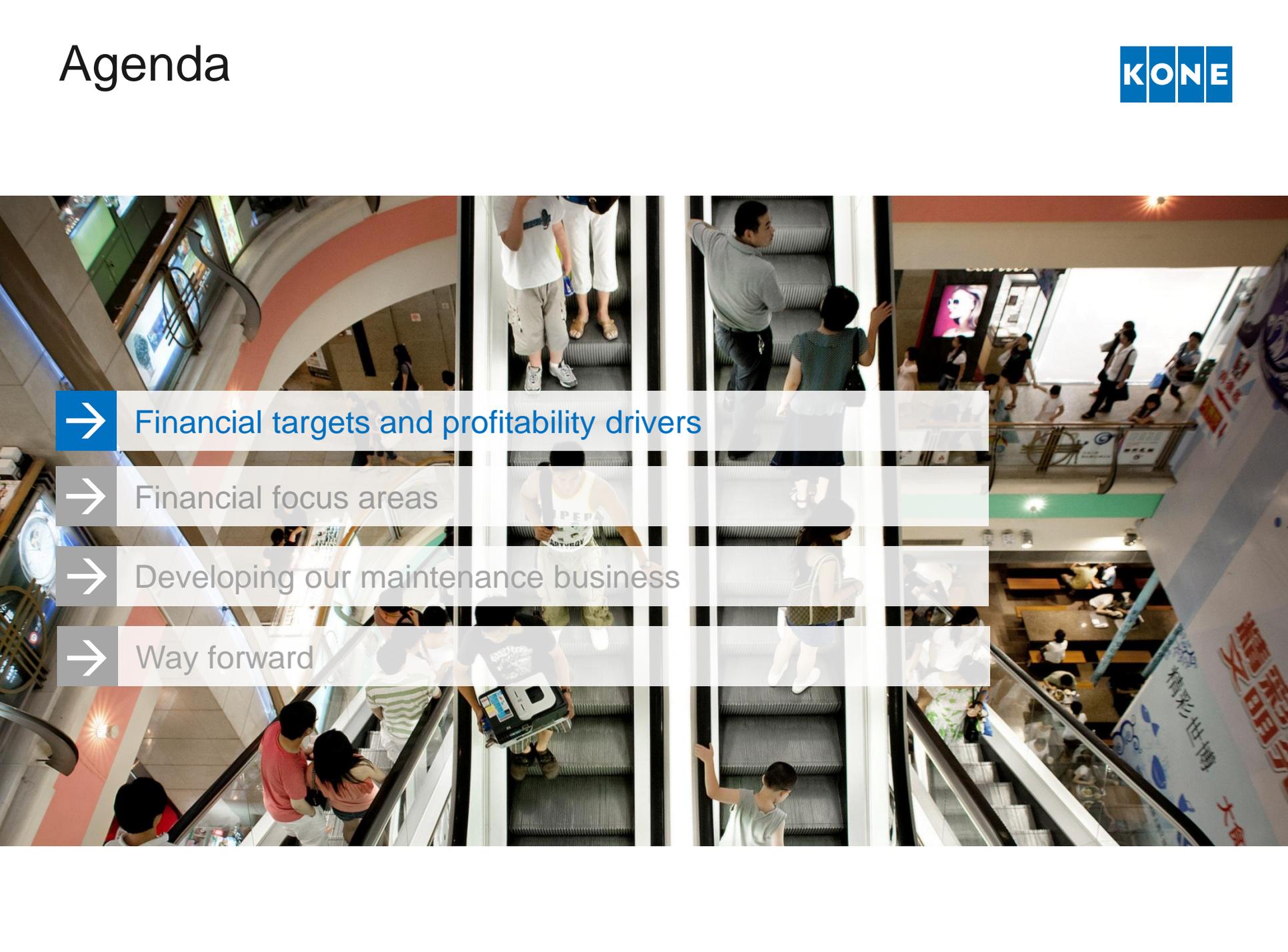
# Developing profitability and productivity

Henrik Ehrnrooth, CFO

September 24, 2013

Graph on slide 11  
has been updated  
February 18, 2015

# Agenda

The background of the slide is a collage of various images related to escalators and public spaces. It includes people riding escalators, people walking on stairs, and people in a shopping mall. The images are arranged in a grid-like pattern, with some overlapping. The overall theme is modern, high-traffic environments where escalators are commonly used.

→ Financial targets and profitability drivers

→ Financial focus areas

→ Developing our maintenance business

→ Way forward

# Our long-term profitability target remains intact – focus is on organic sales and EBIT growth



## Long-term financial targets and focus areas

Long-term financial targets		Key financial focus areas
Growth	Faster than market	Market position and pricing
Profitability	EBIT 16% 	Absolute EBIT growth over the long-term
Cash flow	Improved working capital rotation	Cash flow

## Balance sheet and return on capital

MEUR

1-6/2013

### Assets employed

Intangible assets	1,292.3
Tangible assets	268.2
Investments	136.2
Net working capital	-574.0

**Assets employed total 1,122.7**

### Financed by

Equity	1,736.0
Net debt	-613.3

**Equity and net debt total 1,122.7**

**Return on equity 35.8%**

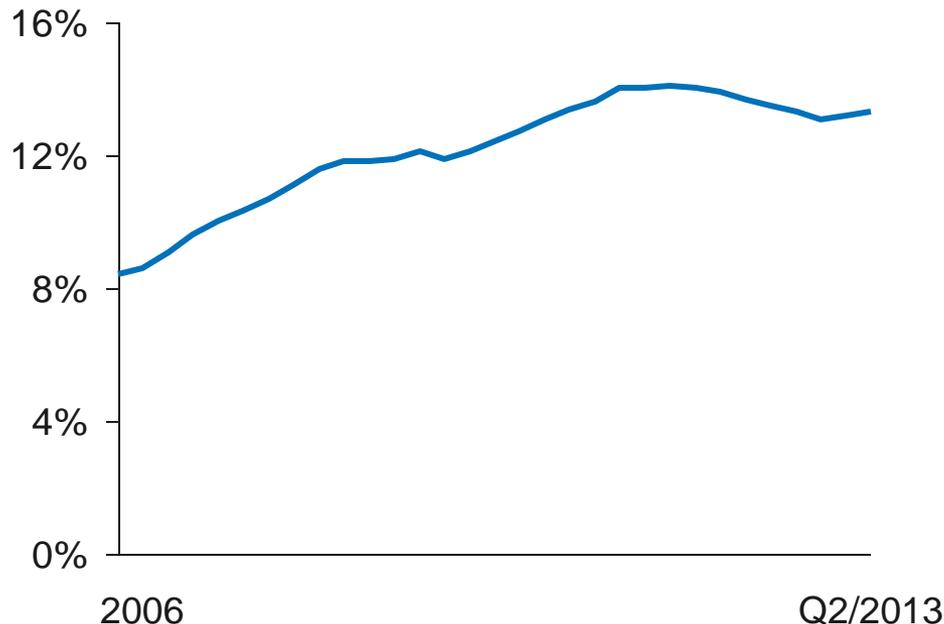
**Return on capital employed 29.6%**

# Good sales and EBIT growth, but margin trend has been slightly negative due to clear changes in the business



## EBIT margin progression

12m quarterly rolling EBIT margin, Q4/2005-Q2/2013



## Recent margin drivers



- Operational and fixed cost leverage
- Quality and productivity
- Growth in maintenance



- Business mix
- Continued investment in areas supporting growth
- Prolonged market weakness in South Europe and the US
- Low margin orders from 2010—2011

# How do we progress towards our long-term 16% EBIT margin target



## Growth

- Maintenance growth through strong new equipment market position
- Operational leverage in all businesses

## Pricing

- Right balance between growth and price

**16%  
long-term  
margin target**

## Productivity & costs

- Maintenance
- Installation
- Fixed cost management and leverage

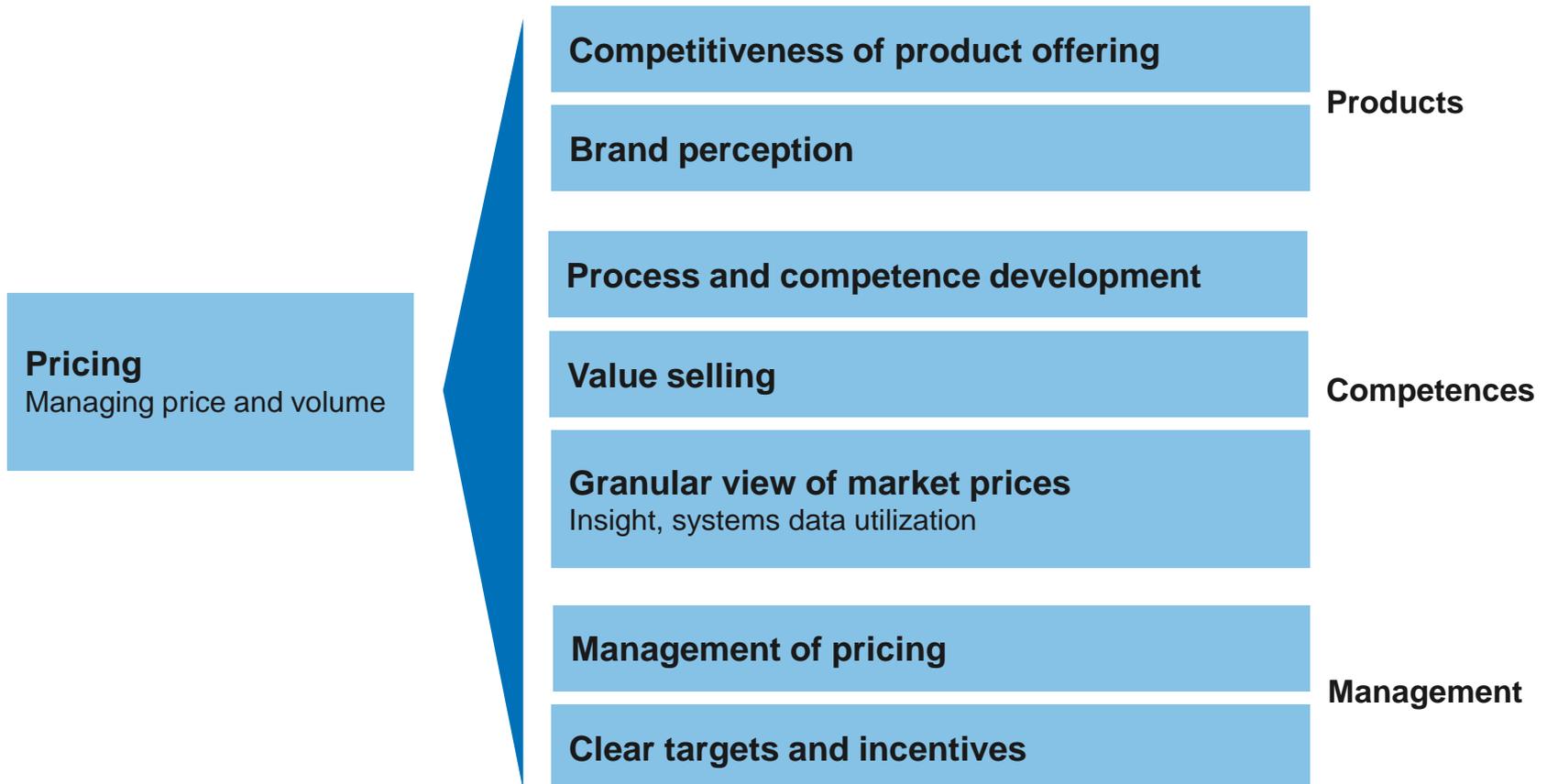
## Quality

- Quality of field operations
- New product quality

# Continuous active development of pricing



## Driving pricing development in a highly competitive environment



# How are we managing our costs to support growth while driving efficiency



## Areas to drive efficiency

- Ensuring leverage from growth
- Overall tight management of costs
- Support function development and adjustment of operations programs progressing
  - Expected annualized cost savings of approximately 35 MEUR
  - Current run rate 26 MEUR, expected to reach 30 MEUR by end of 2013
  - EUR 35 million run rate expected to be achieved in H1 2014

## Investing in areas supporting our growth

- Footprint in Asia-Pacific
- R&D
- Process development & IT

# Favorable raw material price development continued during the first half of 2013



## Raw material price development

	Index change of market prices, %			
	2010	2011	2012	1-6/2013
Hot-rolled steel	23%	19%	-12%	-2%
Stainless steel	25%	-1%	-15%	-6%
Copper	50%	14%	-12%	-4%
Rare Earths	130%	439%	-43%	-47%
Aluminum	17%	7%	-8%	-6%
Brent Oil	31%	39%	1%	-4%

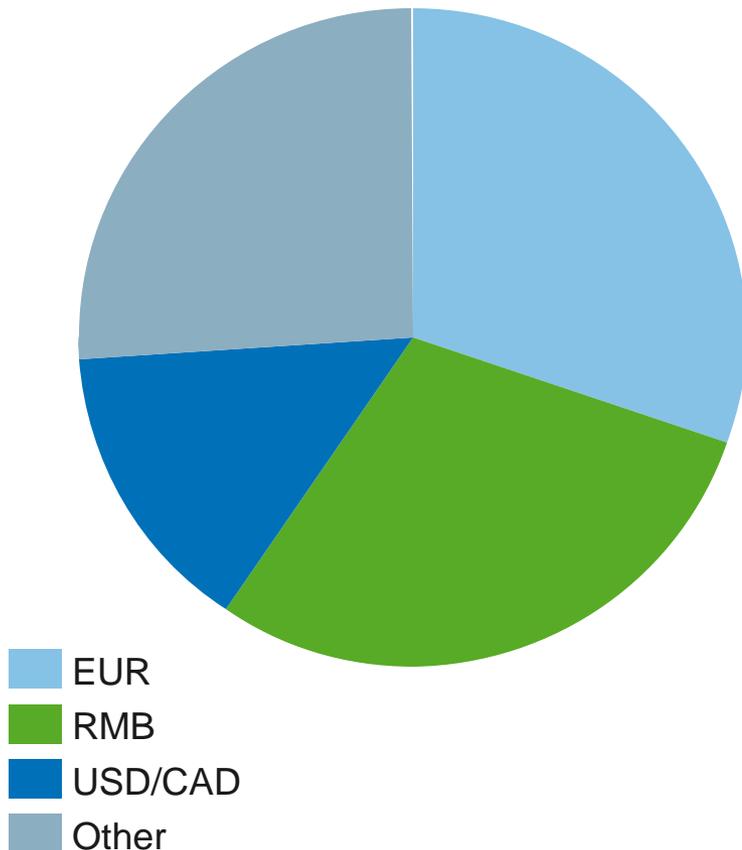
## Sourcing focus areas

- GiantKONE included in our global sourcing platform
- Supplier quality
- Gradual locking of material prices for H1/2014

# Majority of our sales are in other currencies than the euro



## Sales by currency in 1-6/2013



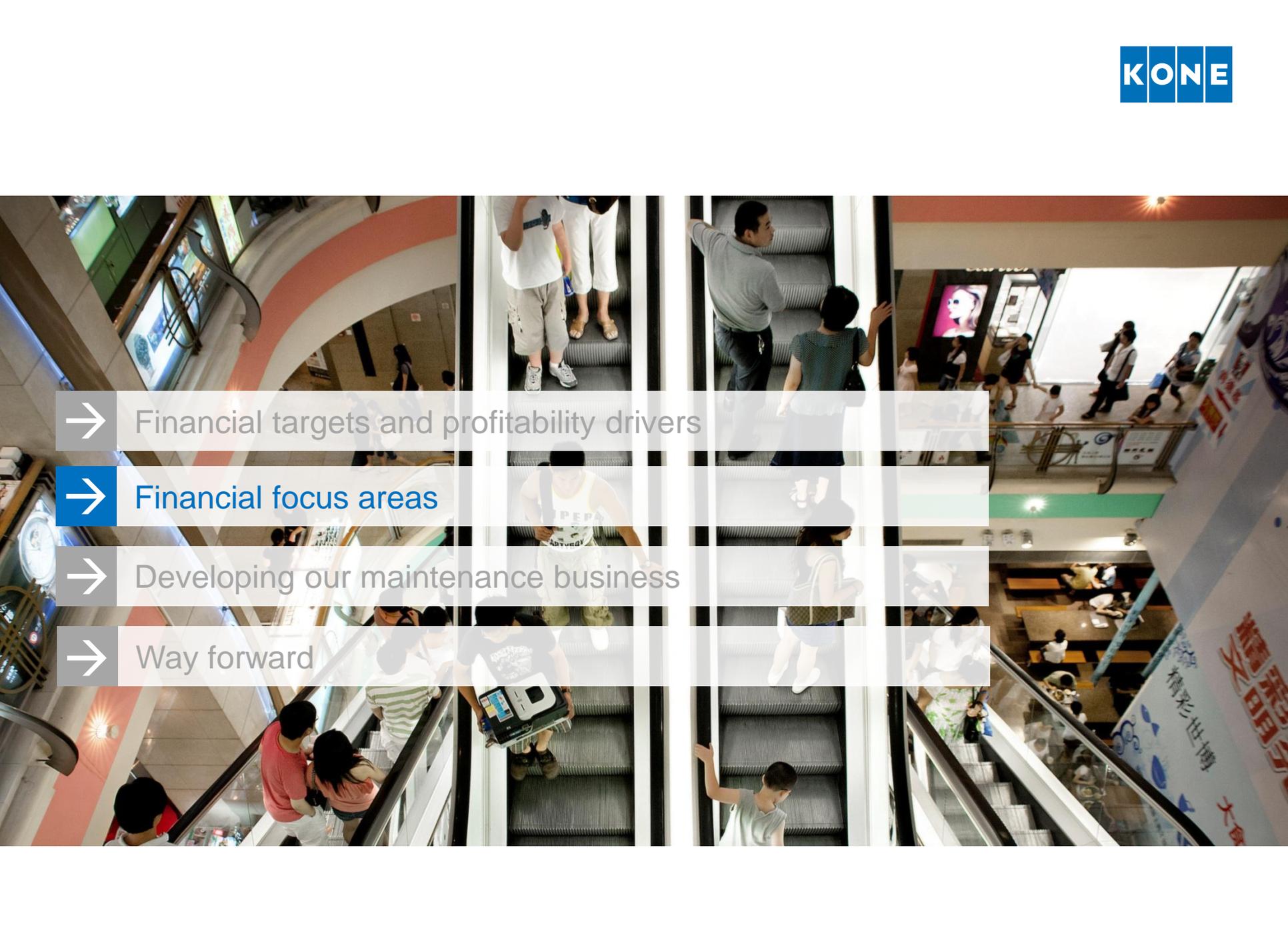
## FX management

### Transactional

- Balance between sales and costs provides good natural hedging

### Translational

- Changes in translation rates have an impact on sales and EBIT, approx. 35% of EBIT improvement in 2012 was due to FX
- Currently FX is a slight headwind
- Turbulence in Indian and Southeast Asian currencies does not have a material impact

The background of the slide is a collage of various images related to escalators and public spaces. It includes close-ups of people using escalators, wide shots of busy escalator systems in a mall or transit station, and people walking on adjacent levels. The images are arranged in a grid-like pattern, with some overlapping. The overall color palette is dominated by the blues and greys of the escalator railings and steps, with some warmer tones from the surrounding environment.

→ Financial targets and profitability drivers

→ **Financial focus areas**

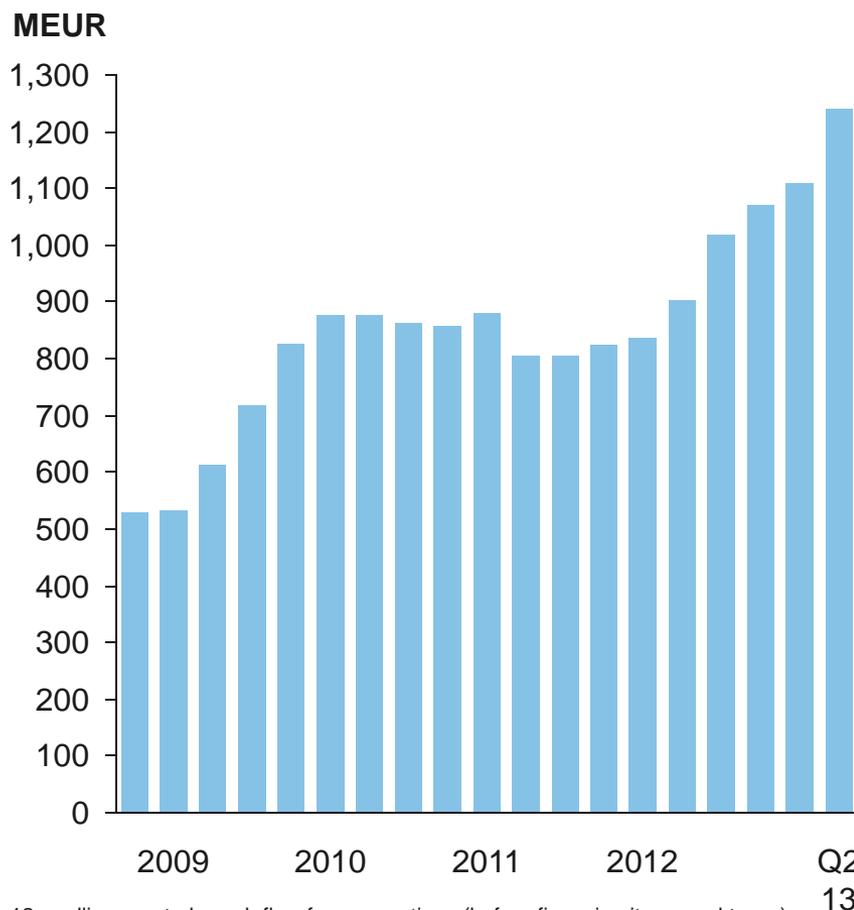
→ Developing our maintenance business

→ Way forward

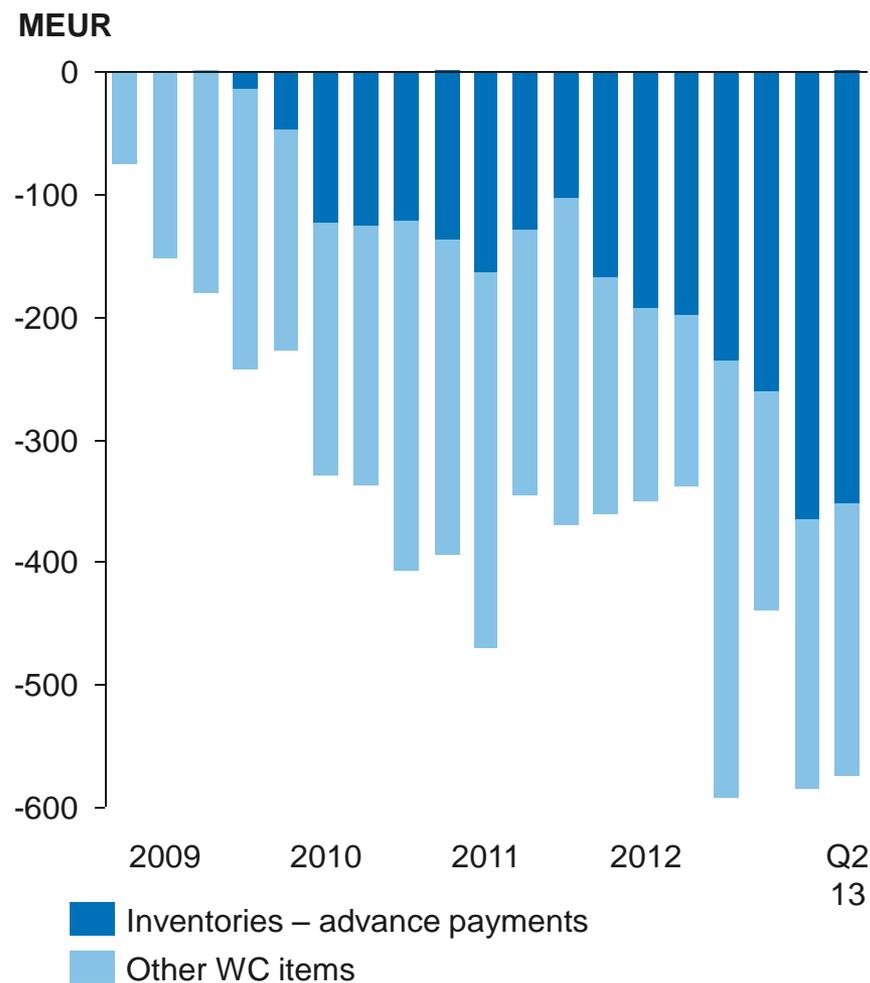
# Absolute EBIT growth and improvement in working capital have led to strong cash flow



## High operative cash flow generation, 12 months rolling



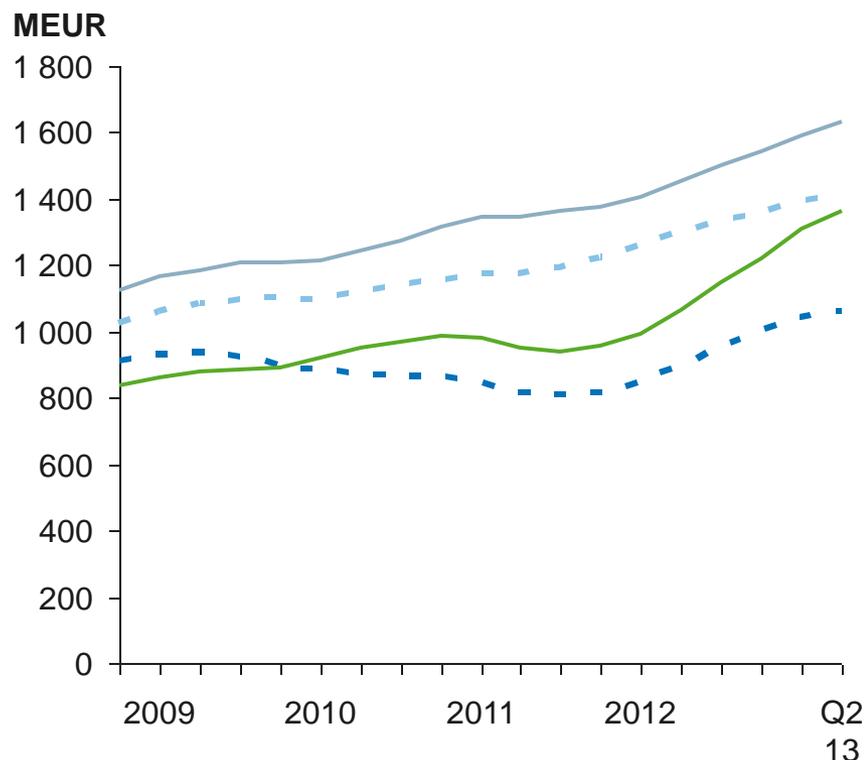
## Strong net working capital development, Q4/2008-Q2/2013



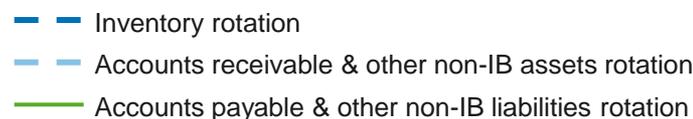
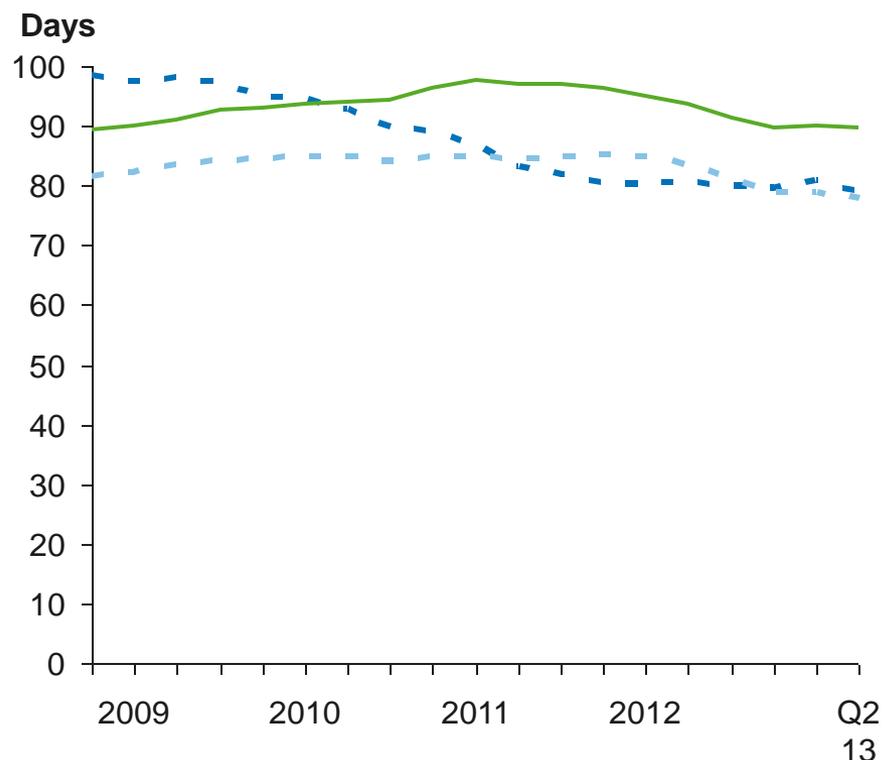
# Working capital position has continued to develop favorably



## Working capital item development



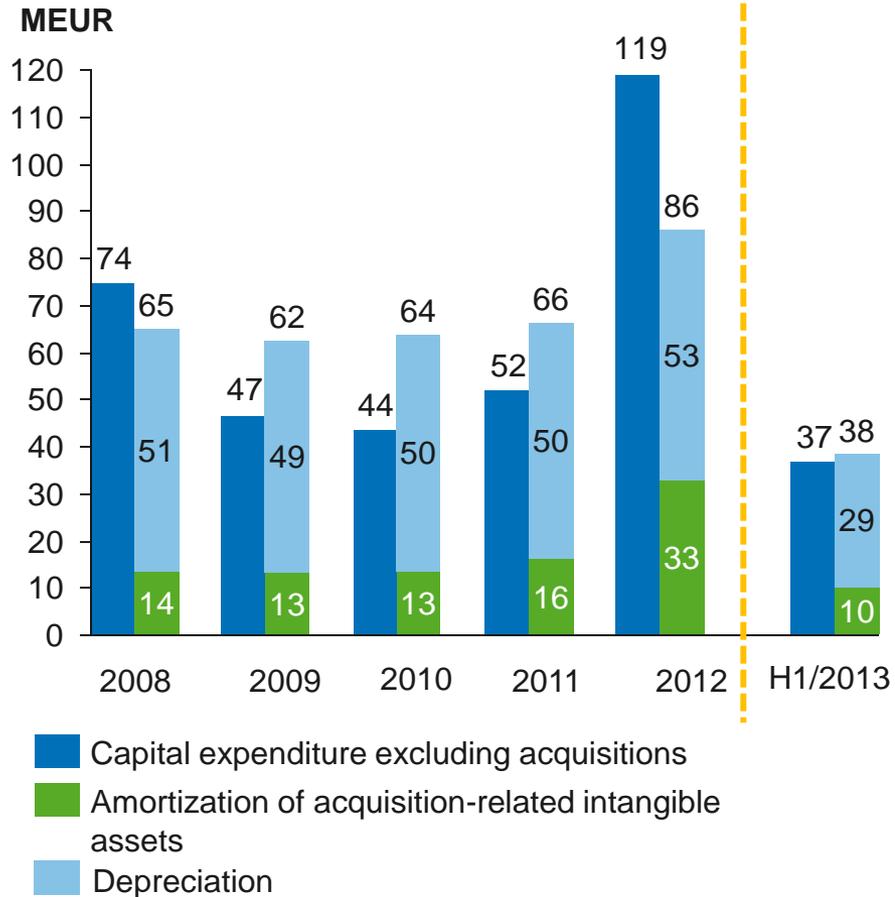
## WC rotation relative to sales



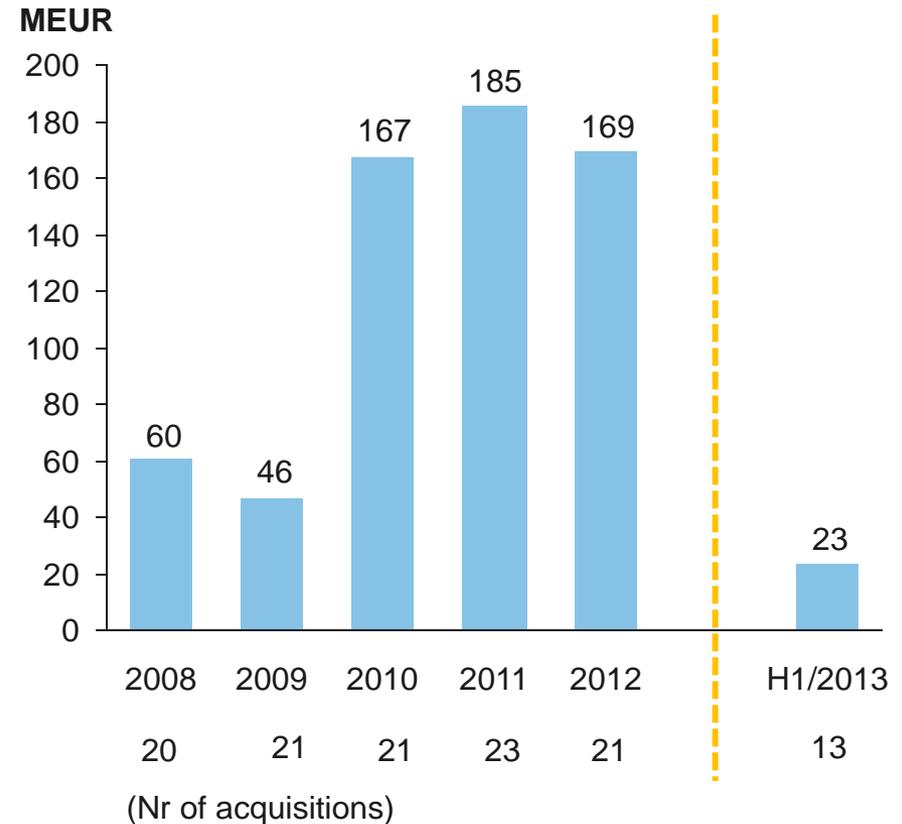
# Our investments are geared towards growth



## Capex increased due to Kunshan in 2012



## Acquisitions remain a priority

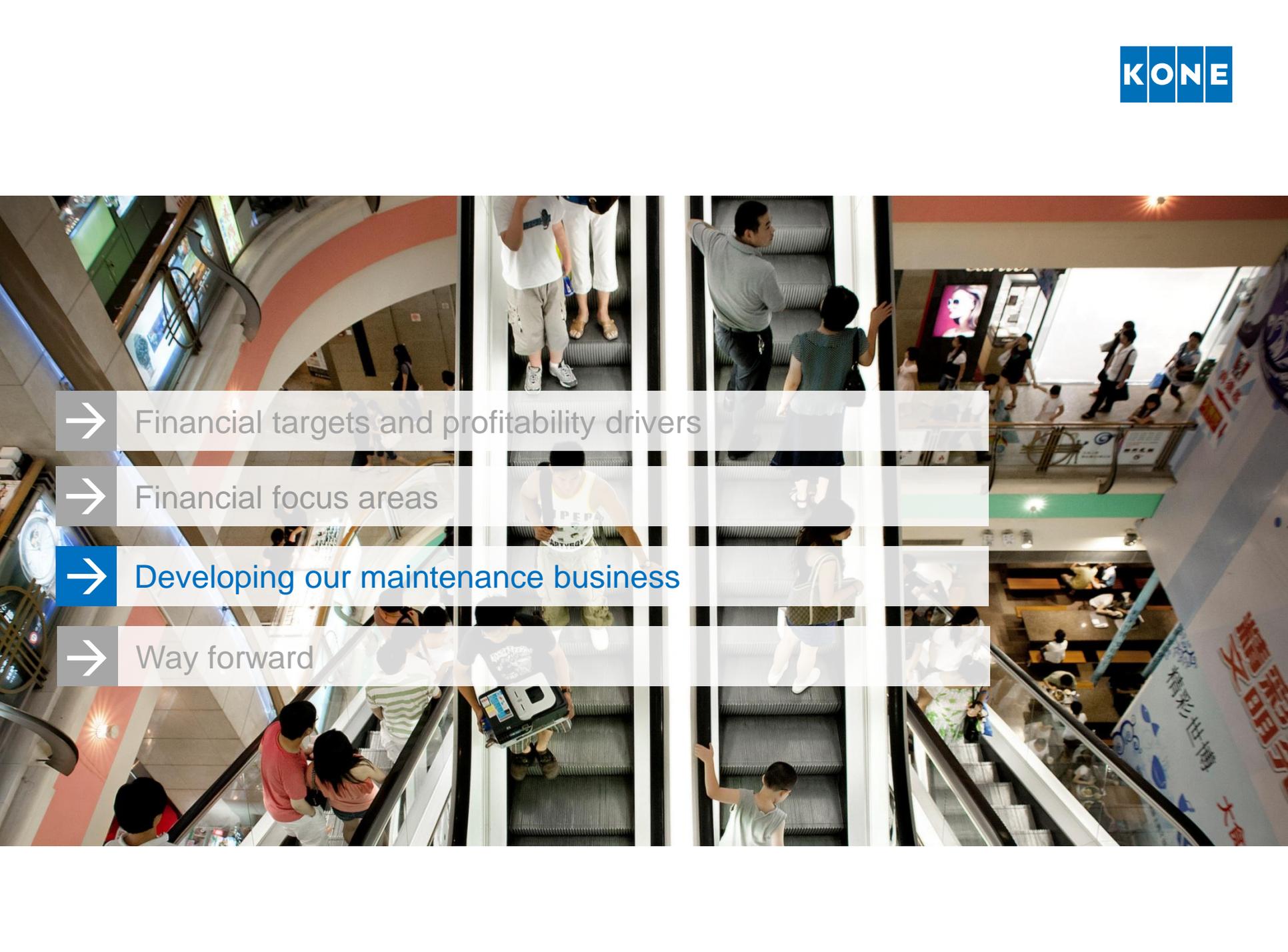


# Cash flow has constantly improved through improvement in all cash flow items



## Cash flow statement

MEUR	1-6/2013	1-6/2012	1-12/2012
Operating income	403.2	307.6	791.4
Change in working capital before financing items and taxes	181.6	97.8	193.4
Depreciation and impairment	38.4	43.0	86.0
<b>Cash flow from operations before financial items and taxes</b>	<b>623.2</b>	<b>448.4</b>	<b>1,070.8</b>
Cash flow from financing items and taxes	-85.3	-51.0	-128.7
<b>Cash flow from operating activities</b>	<b>537.9</b>	<b>397.4</b>	<b>942.1</b>
Cash flow from investing activities	-64.7	-65.0	-220.2
Increase in equity (option rights)	3.8	29.7	29.7
Purchase of own shares	-4.8	-36.9	-36.9
Profit distribution	-448.3	-356.4	-740.8
Changes in non-controlling interests	-6.6	-	-1.5
<b>Free cash flow</b>	<b>17.3</b>	<b>-31.2</b>	<b>-27.6</b>

The background of the slide is a collage of various images related to escalators and public spaces. It includes people riding escalators, people walking on stairs, and people in a shopping mall. The images are arranged in a grid-like pattern, with some overlapping. The overall theme is modern, busy public infrastructure.

→ Financial targets and profitability drivers

→ Financial focus areas

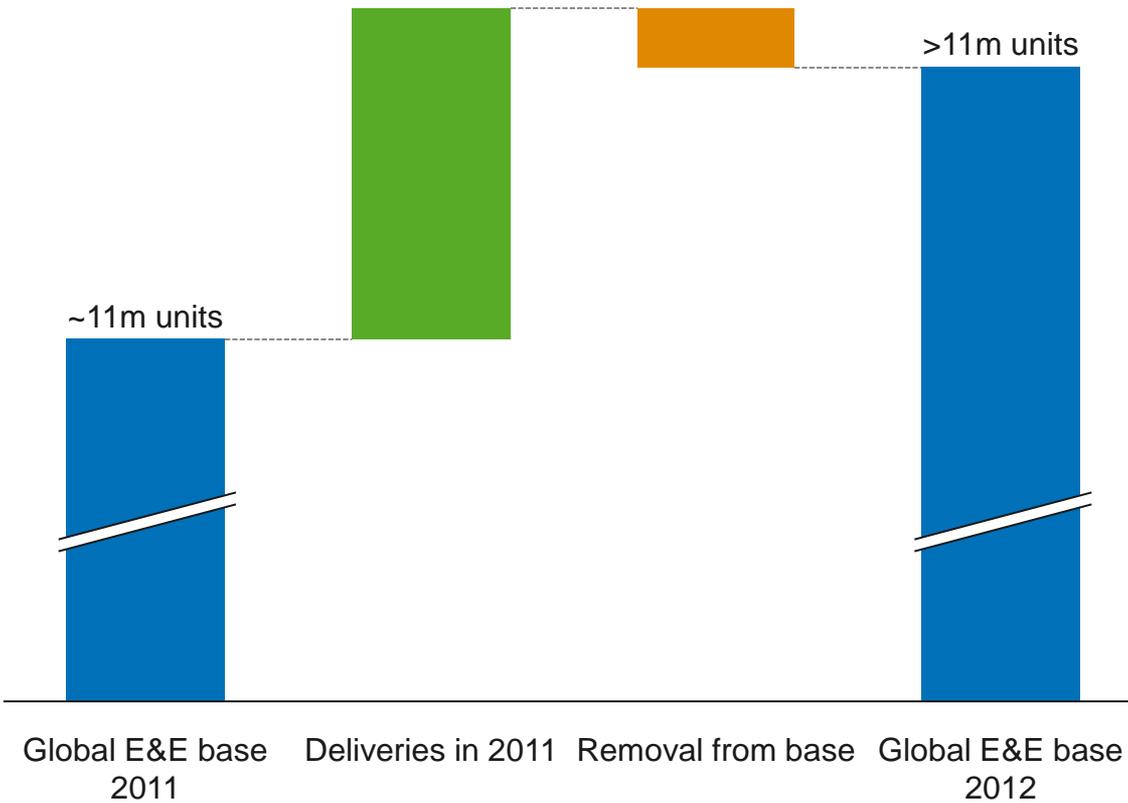
→ **Developing our maintenance business**

→ Way forward

# Fundamental growth of the maintenance market



## Global E&E base development in 2012



## E&E base growth by area (approx.)

### CAGR by area 2008-2012

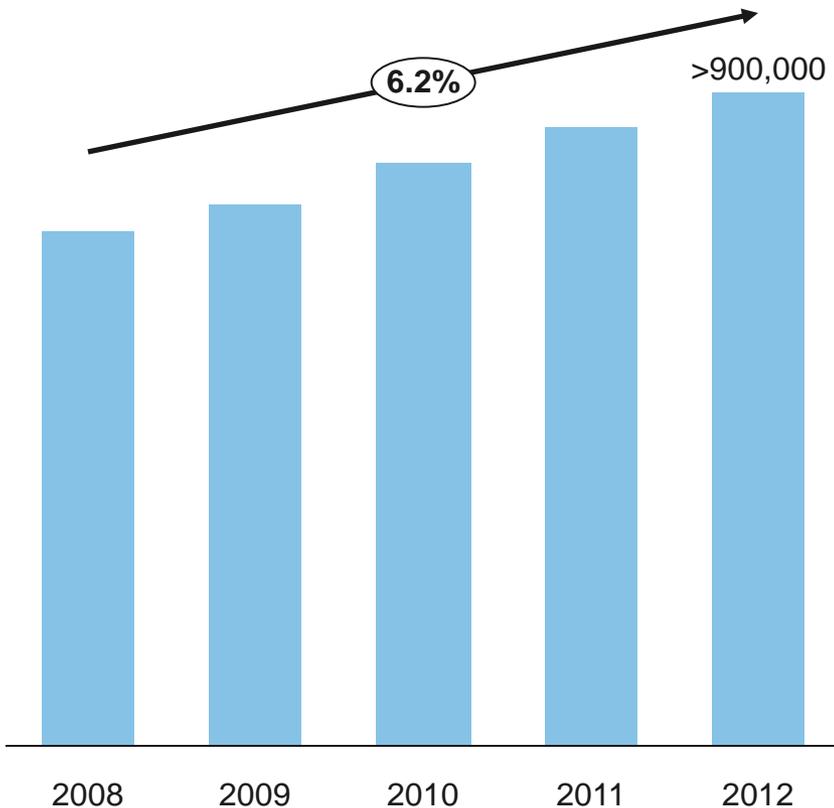
Global	5.5%
EMEA	2%
North America	1%
China	22%
Rest of APAC	10%

# Growth in maintenance sales through continued growth in service base as well as improving value per unit



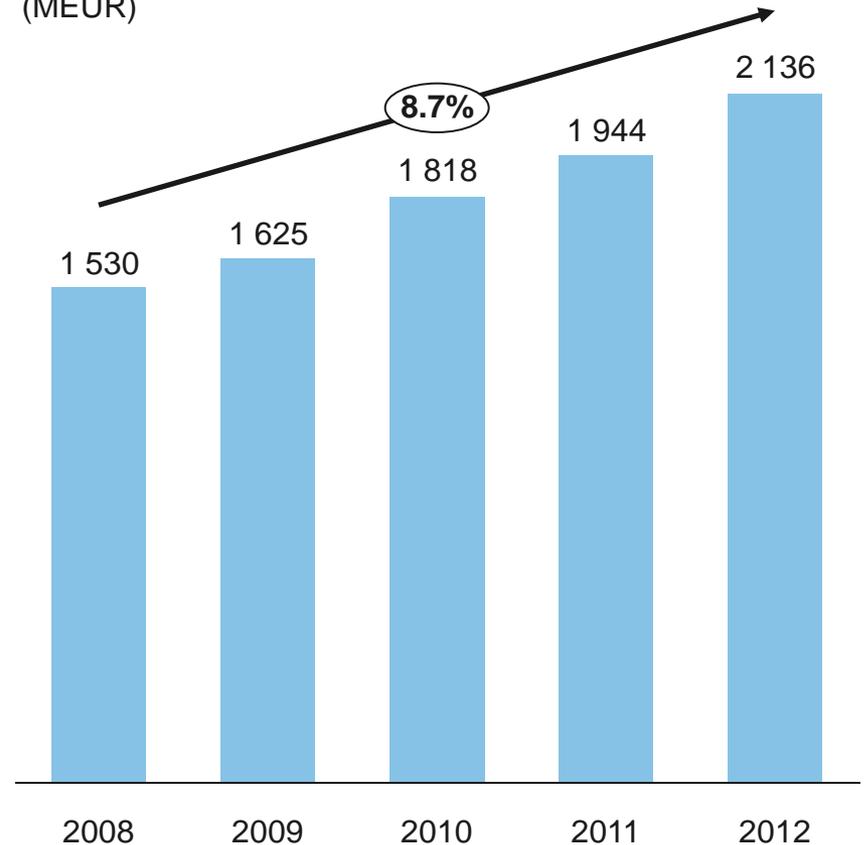
## KONE's maintenance base development

(E&E units)



## KONE's maintenance sales development

(MEUR)



Growth (CAGR) in comparable currencies: 7.2%

# Our maintenance base grows by different means in different regions



Closing Lifts in Service (LIS) at end of year n-1

Conversions

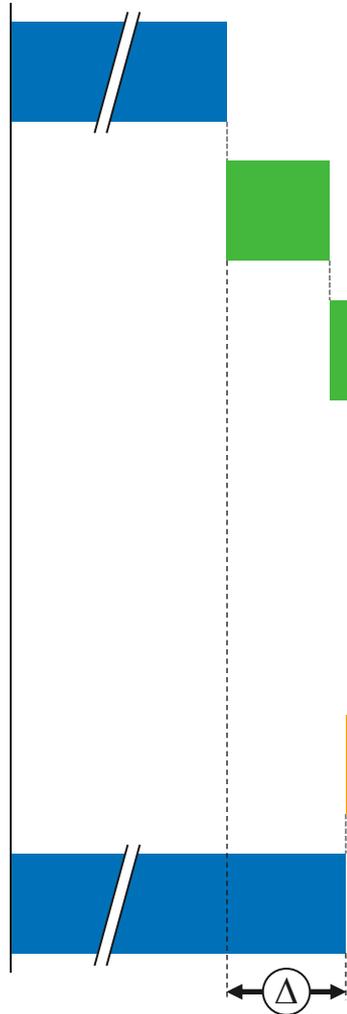
Acquisitions

Wins

Losses

Other

Closing Lifts in Service (LIS) at end of year n



## Conversions

- Primary way of growing maintenance base
- Conversions in China key growth driver going forward

Installation of new equipment

First service period typically 1-3 years

Conversion into maintenance base

## Acquisitions

- Focus to grow density
- Establishing new operations (e.g. Israel in 2012)

## Competition balance

- Competition for existing units in service
- Weak markets have increased churn somewhat
- Strong focus on customer retention and sales activities to improve balance

## Pricing

- Escalations to cover labor and other cost increases
- Renegotiations
- New conversion pricing
- Material

# Developing productivity in maintenance



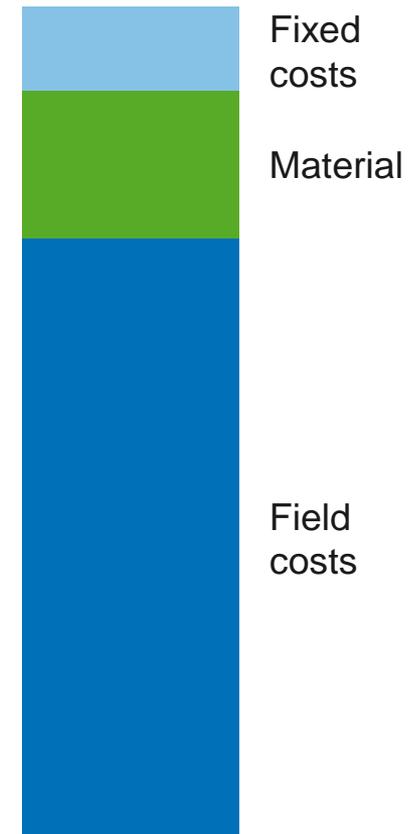
## Density

- Growth through conversions, acquisitions and competition balance
- Route optimization

## Performance management

- Measurement & control
- Benchmarking
- Competence development & coaching

## Rough cost structure in maintenance



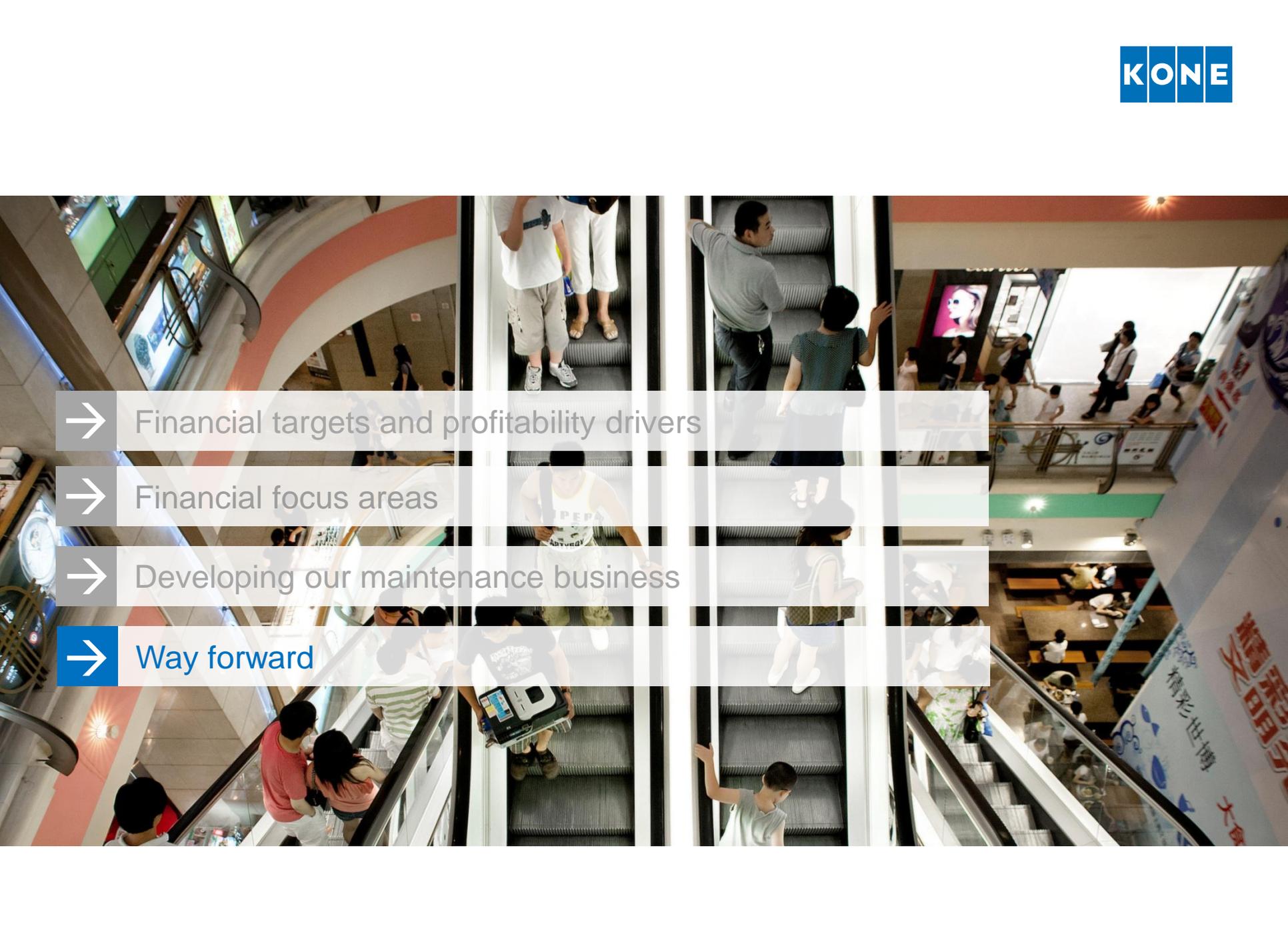
**Maintenance  
quality &  
productivity**

## Maintenance methods

- Clear processes and tasks
- Focus on improving quality

## Technology/Systems

- Planning and prioritization of work
- Dispatching

The background of the slide is a collage of various images related to escalators and public spaces. It includes close-ups of people using escalators, wide shots of busy escalator systems in a mall or transit station, and people walking on a platform. The images are arranged in a grid-like pattern, with some overlapping. The overall color palette is dominated by the blues and greys of the escalator railings and steps, with some warmer tones from the surrounding environment.

→ Financial targets and profitability drivers

→ Financial focus areas

→ Developing our maintenance business

→ **Way forward**

# We will continue building on our strengths going forward



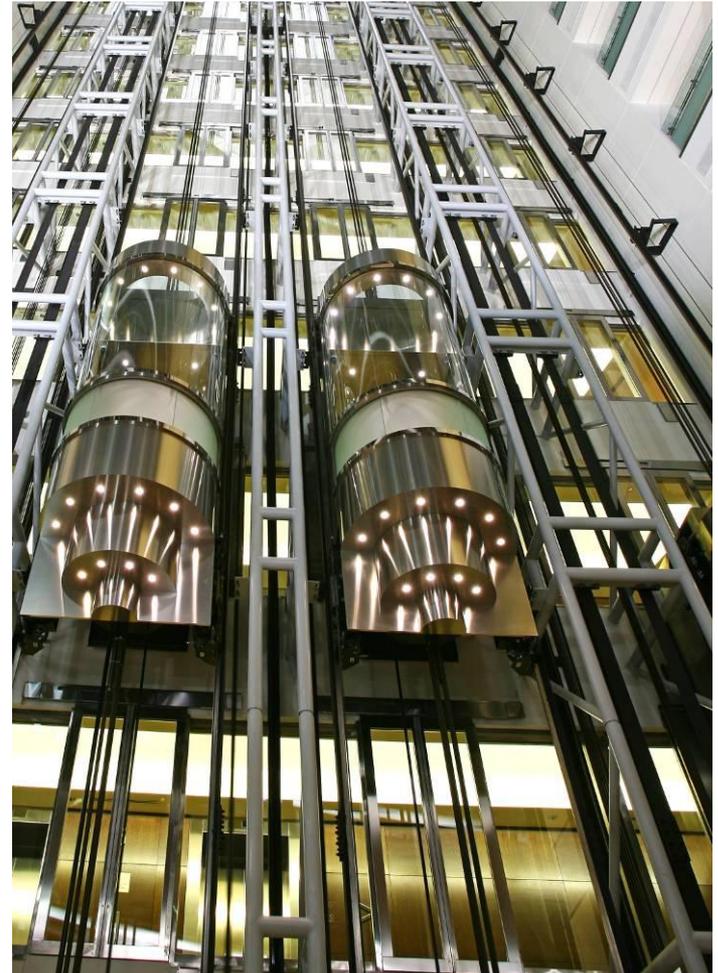
**Continued good growth as a result of market share gains and market growth driven by global megatrends**

**Strong market position in Asia brings growth opportunities and strength in service business brings stability**

**Challenger attitude and consistent active development of competitiveness**

**High-quality execution of a capital-light and cash-generative business model**

Low amount of fixed assets required  
Negative working capital  
High return on invested capital





*Dedicated to People Flow™*

