KONE Q3 2020 Interim Report for January-September
OCTOBER 22, 2020
3:45 P.M. EEST

This transcript of KONE's Capital Markets Day webcast and conference call is produced by a third party. KONE Corporation takes no responsibility for possible discrepancies between this transcript and the original webcast.

Sanna Kaje: Good afternoon, and welcome to KONE's Q3 Results Presentation. I'm Sanna Kaje, the Head of KONE's Investor Relations. I have here with me today, our President and CEO, Henrik Ehrnrooth, who will go through the Q3 highlights and discuss a bit the outlook; and CFO, Ilkka Hara, who will discuss the financials in more detail. After the presentation, we will have time for your questions. Henrik, please.

Henrik Ehrnrooth: Thank you, Sanna. And a warm welcome also to – from me to Q3 webcast. It's a great pleasure to announce another set of strong results. We had a good quarter despite the environment. And we had a good quarter again because of the phenomenal job all of our people have done in navigating this very unusual situation, mostly as I said, in connection with Q2 and I think I said in connection to Q1, could not be more – couldn't be prouder of the team that I am right now or what everyone at KONE has been doing.

But it's clear that the situation continues. We have learned a lot and I think we have a lot in store to how to navigate a situation like this.

Today, I'll talk, as usual, start with the highlights of our results, talk a little bit how we developed KONE, about our markets. Handover to Ilkka for the financials, deep – dive a little bit deeper into them, and I'll wrap up then with the outlook for markets and for our business for the rest of the year.

But let's start with the highlights. Highlights really are the growing earnings and I would say extremely strong cash flow in a tough and unusual environment. Our development in China was very, very strong, something I'm, of course, incredibly happy and proud about. In the quarter, we also once again completed our annual customer loyalty survey and we had positive results. So we can see we're going in the right direction.

And also, as I think most of you know, as we talked in our Capital Markets Day, we're raising the bar in terms of sustainability and set the most ambitious pledge in our industry. I'll talk more about that.

But let's start with the key figures for Q3. As I mentioned already, highlights were growing earnings and a very strong cash flow. Orders received just shy of €2 billion, minus 3.8% compared to last year, but if you look at comparable currencies, they actually grew by 0.4%.

Our sales €2,587 million, growth of 1.1%, or 4.9% in comparable currencies. Again, like in Q2, we improved our earnings, so our EBIT improved by 6% to €333 million and our adjusted EBIT from €322 million to €340 million. And margin improved from €12.6 million to €13.1 million. I think that's a great performance in this environment.

As I mentioned already, really highlight is the strong cash flow. Already last year's cash flow, if you remember Q3, at €463 million, was a very strong cash flow. Now that even stronger €600 million following from the all-time high we had in Q2. We've made another all-time high now in Q3. I think it tells quite a lot how we were running the business in a very good way.

Earnings per share of €0.50 compared to €0.48 a year ago. A one quarter there is always a short period of time to look at. Now we have three quarters behind us. So there's little bit more perspective. And for the first three quarters, orders of €6 billion, minus 3.2% in comparable currencies. As I think you remember, if we look – go through the year, orders received in the first quarter is quite flat; second quarter down 10%; now little bit better at 0.4% plus.

Our order book remains very solid at €7.9 billion. It gives a good situation going forward down slightly year-over-year 1.4% down in comparable currencies. Sales actually very good €7.3 billion for the first three quarters, growth of 1.7%.

Also operating income up from €836 million to €846 million. And actually interestingly enough, our adjusted EBIT exactly the same as last year. And Ilkka has promised me that this was not something they adjusted to get there. This was the real number. It of course looks like there will be quite a low likelihood to have exactly the same number. But that's what we had, and that's a good number. And margin stable at 11.9%.

Cash flow. In three quarters, we've had about the same cash flow as we had over the full year last year, and last year's cash flow was good. So this is, of course, incredibly strong. Our earnings per share up from €1.26 to €1.27.

As we talked before, this year has thrown a lot of challenges at all of us. Many challenges that have been first time we've seen those kind of situations and something we just have to figure out. When I look at the culture at KONE, how people have taken this – the commitment they have shown, the dedication they have shown to work – figure out ways to work safely and serve our customers has just been remarkable. Of course, incredibly grateful for what they all have done. Without the KONE culture, without our strong values, we wouldn't be here today where we are.

When I look at Q3, we could see that momentum in many of our business has actually improved, particularly if we think about maintenance, momentum improved, but we are not quite back to normal. We are still, in some places, far away from normal, but at least we're going in the right direction. And we thought we're going to share a little bit of data with you to show what is actually the activity in a few countries.

And I think this picture is quite interesting picture to look at. What do we have here? Well, we have a sample of five countries. And here you see the average number of elevator starts per month, an index to one back in beginning of 2019. And you can see the fluctuation from there on.

And then you can see that – and actually the sample we have behind here are about 100,000 elevators, the elevators from our connected base that we can follow these data on a daily basis. So we can see when the crisis hit, elevator usage or number of starts was down anywhere from 29% to 71%. But we've seen is that we've seen a clear recovery, shows the activity has increased. Germany is only 11% below normal. And that we can clearly see in our maintenance business there as well, whereas UK for example is still 37% below normal.

Okay, UK of course has more commercial equipment rather than residential, which is more prevalent in Germany. But this actually gives us a little bit of insight in how we expect the market to develop. And just to share some of the data that we have now at our fingertips given the more and more and more broader connected base that we have at KONE. So this was just a little bit to show some – little bit different type of data I think is quite interesting.

Some other highlights from the quarter. We talked this year a lot about our DX Class elevators, which we launched late last year and our 24/7 Connected Services. The roll out of our DX Class elevators has actually gone very well. It's the fastest rollout of a new product family for KONE ever. This is what we sell in Europe now. We have also expanded to new markets. And we expanded it to modernization. So we can modernize an old elevator to become a KONE DX Class elevator.

Also we can see that momentum has further improved in our 24/7 Connected Services. So we have a good momentum here. This is really a service that is very well suited to the time that we are in now.

But I think what is important is that this service is not static. It's not that we have developed this – our 24/7 Connected Services and then it's going to stay like that forever. No, we're upgrading it constantly. And in this quarter we brought out a new part to this service that we call 24/7 Planner. It's for facility managers, facility owners to help them plan their future repair and modernization needs. It has been received extremely positively by these customers who said, hey, now I really have data on understanding what money to budget, how I should plan. And this is of course based on data that we have gathered in their equipment during the usage.

We also had an important launch in the Americas, our new MonoSpace 300 for low-rise buildings. These are buildings that need an elevator for one, two or maybe three stops. That's a segment that we have not really addressed at KONE before. That's a segment that's been mainly served through hydraulic elevators. But now we have a product where our customers can actually get a great modern elevator also in these types of buildings.

So what I'm actually very pleased about is that that's a segment that we haven't really covered before. So now we're expanding our addressable market in the US with a very competitive great new product. So a good time when the market in the US is falling significantly, but we can address the market more broadly through this new MonoSpace 300.

And as I mentioned, our net promoter score in annual customer loyalty survey increased. We talked about that also in our Capital Markets Day. And we can continue to see that our customers appreciate KONE very much for what we are, being a reliable partner, high quality products for innovation, although we have things to be done in the area, for example, responsiveness. So lot of learnings always and that's how we take this. We take them to learn what do customers expect of us to be able to serve them even better.

So those are some highlights. Then I also have a couple of important longer-term developments that are fundamental to our longer term competitiveness and who we are at KONE.

And let's start with the first one, sustainability. We have decided, and during the quarter we announced, that we are taking much stronger action to tackle climate change, because we think that is the biggest challenge of our time. And we have now set science-based targets to meet the 1.5 degree challenge. These pledges that we made are clearly the most ambitious in our industry. We want to show the way.

We're doing this because it's the right thing to do and we believe it will have a very positive impact on our growth. We can see that customers and capital more and more going into green buildings, green modernization and we can see that customers expecting also their partners to be sustainability leaders. We have already a lot of good assets in this area, including having the most energy-efficient products in the market. And now we're really taking the next step forward and showing the way in our industry.

What have we pledged? Well, it's to reduce our greenhouse gas emissions from our operations by 50% by 2030 and be carbon neutral by then, so rest we will compensate. And also we have committed to a significant reduction across the value chain. So we will reduce by 40% our greenhouse gas emissions from our products and materials lifetime energy use, so-called Scope 3 emissions relative to products ordered. This will, of course, mean that we need to get very much our suppliers involved here as well. So this is an important pledge and tells a lot about what type of company we want to be.

As I mentioned in the beginning, we wouldn't be where we are today without the KONE culture. It's something that really defines who we are. We are a company based on very strong values. That, I think, you can see from many things that we have done also during this crisis. The values that we have defined for KONE were already defined 15 years ago. And they have served us incredibly well.

But we felt it was time to refresh them and we have worked actually a lot during the past year with a broader group of KONE people and what we want KONE to be both aspiration and what we are today. So we're also launching a new value set today, which are very important today to us. It's about who we are and what we aspire to become. And we have defined that in four values for KONE. We talk about care, customer, collaboration and courage.

So care is about we care for each other, a very strong commitment to diversity and inclusion. We're setting very strong targets for us there. It's also about compassion. In customer, we said we're committed to our customers' success. We need to be curious about their business. This is really a continuation of what we've done. But everything we do has to start from how do we help our customer succeed in their business.

Third one, collaboration. We collaborate as one team. We co-create with each other with our partners and with our customers. That's how we bring the best solutions. And we've performed with courage. At KONE, we want to continue to set the bar higher all the time for our performance, constantly improve and aim higher. We are not afraid of setting tough and high targets for ourselves. That's about courage.

And if I think about the COVID crisis, I think we've shown very much how we lead by these values. For example, compassion. When the crisis hit, our first objective was not cost on the contrary. Our first objective how do we make sure that everyone stays safe, healthy and how do we keep everyone motivated through this area. So rather than furloughing people broadly, we said that the first thing you do is if you don't have work, is you train yourself.

And what I talked about previously, the number of classes completed in our e-learning platform, which I believe compared to most other companies are very actively used before this already was six times up in April. We're still more than double compared to usual. So that was the first thing. And then we said take some personal holiday creative negative work banks.

And this is really paying off in a significant way rather than just look at cost, cost, cost. Yes, we are – we have been able to reduce costs, but that was not the first objective. So that again shows who we are. And I think from the commitment of our people is paying back many, many times. And courage, people have not been afraid of resolving really complex problems in this environment with very strong local accountability. So that is a little bit more about how we operate than who we want to be.

Very important announcement a few days back that we announced that we have appointed Tricia Weener, as our new Chief Marketing Officer and Executive Vice President for Marketing and Communications. Tricia is currently leading HSBC's marketing globally in their business-to-business side. She has a very strong track record in digitalizing sales and marketing channels, go-to market models. She's a very commercial executive with, of course, a strong global experience. And she's been based in Asia for the past almost eight years, which of course very important to us. So I'm very excited about having Tricia on board – on our Executive Board as of 18th January and help us continue to propel KONE even further in this area as well. So very happy about this announcement.

So that was a little bit about KONE's development and the things we've done during the quarter. Let's look at the markets briefly. New equipment markets, big differences in development. North America, markets declined significantly. In fact, one of the hardest impacted markets have been the United States, where the markets has declined strongly, probably more than most other places apart from maybe some Southeast Asian markets.

Europe, Middle East and Africa, clear decline in the markets, but again a big difference market-to-market. Continuously Germany and the Nordic countries have been pretty robust, and of course, more impact in UK and southern parts of Europe. Middle East, a little bit better than was in Q2, but of course also there is a clear decline.

Biggest differences between markets, of course, in Asia Pacific, where China developed – the market developed very strongly, even stronger recovery in Q3 than in Q2. For the rest of Asia Pacific, markets declined significantly in Southeast Asia, India, although we did see India starting to improve somewhat towards the end of the quarter, but still of course hard hit.

Maintenance markets have been resilient. North America maintenance markets pretty stable. Europe, Middle East and Africa, they've grown slightly and good development continues Asia Pacific, particularly because of China. Modernization markets have been hit. There we can see really a slowdown in decision-making, so significant decline in both North America, Europe, Middle East and Africa and slight decline only in Asia-Pacific. Here, positive development in China, but then important Australia market declined.

But we can see again big differences, and Ilkka will then actually dive little bit deeper in how we have performed in various markets. But overall, we have been able to navigate this time quite well.

A little bit more about China, because the development there was straight up remarkable from market perspective. In units ordered, new equipment markets grew significantly year-over-year. We could see that many developers really working very hard in catching up lost ground from Q1. But really, of course, what's driving this is strong consumer demand. Intense competition from pricing perspective despite the strong volumes, it's clear that everyone wants to now succeed in China as many other markets are weak.

The real estate sector overall had remarkable activity in Q3. We could see a little bit easier financing environment for developers in Q2 and then tightening towards the end of Q3. Infrastructure investments continue to be favored by the government to boost economic activity. It's a good development there.

Look at some of the data. So real estate investments are up almost 12% year-on-year in Q3. We could see improvements everywhere, but the biggest driver here was land purchase, particularly value of land purchase. But residential sales volumes up 9.9% and new starts also up, so we can see that demand release there.

Restrictions that are in the markets have kept price increases modest, which is a good thing. There, I would say, policies have worked. And 4.5% increase year-over-year in September. And the trend that we're seeing where larger developers are outgrowing, the overall market has continued.

But with that, that's about the market. Let me now hand over to Ilkka to dive little bit deeper into our financial performance.

Ilkka Hara: Thank you, Henrik and also a warm welcome on my behalf to this third quarter results announcement webcast. As already highlighted by Henrik, I'll take a bit of an overview to our performance in all of the different geographies, given the varying market environment that we operate in, before I then deep dive to our financials, as normal.

First, we start from orders received development across the different geographies and businesses. I would highlight from China perspective how strong the performance has been.

We've seen very strong growth across all the businesses, new equipment, modernization and also maintenance orders received development. At the same time, if we look at the rest of the businesses in new equipment – sorry, if we look at the rest of the areas in new equipment, there is clearly a different environment or development in orders received. The Asia Pacific, Europe, Middle East, Africa as well as Americas are declining more than 10% from orders received perspective.

Also, if we look at the geographies, Americas clearly is the most impacted. And we see the impact in all of the businesses in orders received there. Then from a sales perspective, China continues to have a high activity level and we see both new equipment and modernization continuing to perform very strongly.

At the same time, Asia Pacific, outside of China, continues to decline in this environment and more stable development slight growth in Europe, Middle East Africa and Americans in new equipment and modernization. And maintenance business outside of Americas is again growing, an overall growing therefore. So clearly, varying development across the businesses and areas in this – these markets.

Then to financials. And I'll start with orders received development, which for the quarter we reached €1.9 billion of orders received, which is decline 3.8% on a reported basis and on a comparable basis a growth of 0.4%. Here, as highlighted already earlier, the key driver for the development was China, where we saw, in units, our orders received growing more than 20%. And both like-for-like prices as well as mix contributed positively, so the monetary value grew more than units in the quarter.

At the same time, if we look at margin for our orders received, we saw that being stable in the quarter, when we exclude the positive mix impact coming from the strong orders in China.

Then to sales. Our sales for the quarter were €2,587 million, on a reported basis growth of 1.1%, on a comparable basis growth of 4.9%. All businesses contributed to this development, strongest growth being in new equipment 7.5%, maintenance returned now to growth to 2.1% and modernization growing 1.3%. Already highlighted the geographical differences, but clearly the strongest growth here in Asia Pacific led by the deliveries in China, especially in the new equipment business.

There are two highlights in our results in this quarter. First is clearly the development of our adjusted EBIT. At €340 million, it is a growth of 5.5% from last year. And we also saw our margin improving from 12.6% to 13.1%, good development in this tough environment in the quarter.

Secondly, it is good to see that both growth as well as profitability contributed positively to this development. And also I'll highlight that, as in our guidance also, already in this quarter we see more headwinds coming from currencies at €9 million.

Accelerate program which is nearing its end at the end of the year had costs of €6.7 million and the benefits were roughly €15 million in the quarter. Then there's another highlight of our results in this quarter, clearly is what it was cash flow. Exceptionally strong cash flow in the quarter at €600 million. Although, there is always fluctuations in our cash flow on a quarterly basis, clearly so far we've seen very good development in our cash flow, and from a networking capital point of view, the key contributors to that is, first, our accounts payable being on a high level driven by the strong recovery in China. We already saw that been visible in Q2 and continuing now in Q3.

Also there are countries where we're seeing extension of payment terms for things like VATs, which continues to have a €50 million positive impact on working capital. And also advances received have been having a positive impact to working capital, clearly very strong development from a cash flow perspective.

But with that, I'll stop the financial review and handover back to Henrik to go through the markets and business outlook.

Henrik Ehrnrooth: Thanks, Ilkka. Let's wrap up with the outlook for the rest of this year. The market outlook is unchanged from what we recently announced. So clearly with a good development in China, particularly in Q2 and Q3, we expect the market to grow for the full year. Other regions we expect new equipment markets decline as a result of the current environment.

Maintenance markets, we expect them to continue to be resilient. Of course, there is an impact of the direct impact of lockdowns such as on repairs overall in the market. But, of course, there as well we have seen a slightly better momentum. Modernization underlying drivers are there as we've seen very good growth in the past years. Now clearly there's delay in decision-making that's impacting the market for modernization projects.

Our business outlook is unchanged from what we recently announced. We expect our sales to be in the range of minus 2% to plus 2% compared to last year in comparable currencies. And our EBIT margin to be in the range of 12.8% to 12.7%. And we continue to have many good things driving our performance. The solid order book and maintenance base, that's of course there.

We are seeing that the improved pricing and improved margins in our orders received over the past couple of years is really being reflected in our sales, so that's fantastic. And we are reaping benefits from the Accelerate program. There are, of course, burning factors that COVID-19 outbreak, some direct costs but of course also the fact that the revenues in – many markets in Asia and South Europe are lower than expected. And that, of course, creates more of a cost burden.

Subcontracting costs are increasing despite the situation in many countries. And we have proactively decided to invest in our capability to sell and deliver digital services and solutions.

And as Ilkka mentioned, there is a clear impact from the strengthening of the euro compared to dollar and RMB and so forth, and that we expect is about €40 million negative for the full year, if rates stay at where they are right now.

But let's also take a sneak peek into beginning of 2021. This is not a full year outlook. This is really what the outlook looks like going into 2021, something we talked about in the Capital Markets Day as well. We have a number of positives, strong order book with the improved margins of orders received. It's clearly helping us. Very solid and robust maintenance business and also our efficiency improvements and performance improvements, as you are aware of.

But clearly, what is the challenge? It's the uncertain outlook. We all know that the situation with COVID virus is worse at the moment than it was just a couple of months back. So that, of course, it blurs the outlook for the coming year. Geopolitical uncertainties can bring unexpected consequences. And then we expect that some discretionary costs will resume to more normal levels during next year, probably not in the beginning yet but later on such as travel and other things like that. But overall, we have a very solid situation going into next year.

So as a summary, very strong performance overall in the third quarter despite the fact that it was mixed between different geographies. We're expecting a solid result for 2020, full faith in that because of the very strong commitment of our people and the trust our customers have shown us and the great work they have done together with us.

So with that, we are ready to go over to your questions.

Sanna Kaje: That's right. Thanks, Henrik. Thanks, Ilkka. Ready for the questions and we can go straight to the telephone lines. So operator please.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one to ask a question. We'll now take our first question from Jeff Sprague from Vertical Research. Please go ahead. Your line is now open.

Jeff Sprague: Thank you. Good day everyone. I was just hoping you could elaborate a little bit more on what you're seeing on pricing, right. There's – I interpret a little bit of a mixed message, right. You're talking about price intensifying and understand that the thought process there. But by the same token, price is positive, margin and backlog appears to be relatively stable, if not improving. So maybe you could just elaborate a little bit more on are you expecting price to become more intense as we look into the back part of the year? Is the price competition just isolated in the China market for example? Just any additional color there would be helpful.

Henrik Ehrnrooth: Sure, happy to do that. So I would put a quite a strong correlation between the intensity of price competition development of the markets. It's clear when you have a rapidly shrinking market, lot of players are fighting for a smaller pie. We've stayed quite focused on pricing in this environment as well. That is important to us. But we can see the environment around us has become more challenging in – during this situation.

If you think about China, you can say, hey, why is it there, given the extremely positive development of the market. I would say that anyone who has a position there, of course, is trying to reap a lot of growth from China right now as many other markets are weaker, and that's of course creating more competition there.

Now we've shown, again, the strength we have in the market that we grew very strongly, clearly above market again and was able to do a good pricing. So I think that speaks quite a lot about our competitiveness there right now.

Jeff Sprague: Could you also just address the cost side? And I asked a question through the lens of kind of carryover benefits you'll have from the structural programs you're taking relative to maybe the temporary costs that would return in 2021. Would that equation be as it stands now a net positive or a net negative as you look into next year?

Henrik Ehrnrooth: Do you want to, Ilkka, address that?

Ilkka Hara: Yes. So I think I would talk about few different buckets. So clearly one big item that we've been working on for quite some time has been our Accelerate program, which is driving on many other things as well, but also cost efficiency. And there, we continue to see good development this year. Overall for the year, it is approximately €50 million, and there's some head – tailwind coming from that to next year as been growing throughout the quarters. So that's something we can take with us to '21.

But then this year the discretionary costs have been down. So for example, travel obviously has been something which has been done a lot less than normally. And many of those items obviously we will learn, so I doubt that we will travel as much going forward as we've done in the past. But there is some costs that will actually come and are coming back to more normal level in '21 as we get out of the COVID-19 crisis.

And then for the rest of the costs, we'll manage those prudently. So that's more of a business as usual.

Jeff Sprague: Great. Thank you. I'll leave it there. Much appreciated.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Klas Bergelind from Citi. Please go ahead. Your line is open.

Klas Bergelind: Yes. Hi, Henrik, Ilkka, Sanna. It's Klas from Citi. So let me – first one is on equipment orders falling like this outside China, double-digit down, the lead time is longer from orders to revenues outside China. So when do you think, Henrik, that this will start to weigh on top line coming out of the backlog already by the first quarter next year, or do we have to wait a bit? And on the equipment orders in non-residential now at the start of the quarter in October, are we seeing further sequential weakness from current levels right now? I will stop there.

Henrik Ehrnrooth: As I mentioned in the highlight going into next year, I mean, we have a good order book going into next year, particularly because as you mentioned, the lead times for new equipment orders are nine, 12 months or so. So we have a good situation. Perhaps modernization little bit can be impacted already because of the shorter lead times.

But then the good thing is that the China has a shorter lead time where we have now very good orders and that is probably going to propel us quite nicely into next year. So I think towards the end of next year, we have to see that it is going to depend on order intake for the rest of this year, a little bit what type of orders.

What is still also a difference is that the volume business overall has performed better than the major projects business. So if you look at major projects, those are the ones who are more people are thinking about little bit more on hold. And those are, of course, then usually orders for the next two years or three years or so. So that helps a little bit also the more near-term.

Klas Bergelind: And on October there, Henrik, on non-residential equipment orders, have we seen a worsening or same level as in September?

Henrik Ehrnrooth: I wouldn't say that there's been a really big difference or –

Ilkka Hara: I wouldn't call out the difference right now.

Henrik Ehrnrooth: Yeah. It varies market-to-market, but no significant difference. I don't think at least markets would have worsened.

Klas Bergelind: My second one is on maintenance. It's growing 2% in the quarter, that's obviously better than in the second quarter, but the 25% of the business which is more discretionary spend still seems to be down. But I guess we saw an improvement quarter-on-quarter. And how much do you think this business can grow again in the fourth quarter, or do we need to wait a bit longer? Interested in that 25% of the business that is more discretionary.

Henrik Ehrnrooth: And again, it varies a lot. There's more discretionary part. And that's of course a very important part of the maintenance business. So that part is much more down in, for example, United States and in parts of Asia Pacific, where lockdowns have been very strict. Actually some of the repair business, if we look at some countries in Central North Europe actually grew already now.

So it's so linked to the activity and that's little bit – you can go back almost to the picture I showed at the beginning with the number of starts per elevator.

Ilkka Hara: And that's like – the picture I actually showed also on the repair side. So that's the maintenance orders that you're talking about giving a bit color geographically.

Klas Bergelind: Okay. Fantastic. My very final one is on mix. So right now the mix is positive because of high equipment sales in China. Next year obviously it's going to take some time, but we might have slower equipment growth in China against tough comp and probably negative volumes maybe on the commercial side outside of China. So here's my question, Henrik. On the commercial side and equipment, is there anything we should know about differences in margin? Could this weigh on mix or is it mix neutral?

Henrik Ehrnrooth: I don't think it should be that big impact from mix perspective.

Ilkka Hara: Country-by-country not that –

Henrik Ehrnrooth: No, that's not a significant driver, no.

Klas Bergelind: Okay. Okay, thank you.

Operator: We'll now take our next question from Guil Peigneux from UBS. Please go ahead. Your line is open.

Guillermo Peigneux: Thank you. And thanks, Henrik and Ilkka for taking my question. Good afternoon to everyone. I wanted to ask about slide number eight, in which you described the sales growth at comparable FX rates for maintenance in China. And if I'm not mistaken and obviously taking out the first quarter of 2020, it is the first time in a long time that it grows not double-digit. So it grows anything between 2% to 10% growth as you define it. So I wanted to see whether this is just tough comparables or just what happened there when it comes to organic growth? Thank you.

Ilkka Hara: I have to ask first that what were you referring to?

Guillermo Peigneux: Maintenance, China organic growth.

Henrik Ehrnrooth: Okay. That it was just – it wasn't double-digit this quarter.

Guillermo Peigneux: Correct.

Henrik Ehrnrooth: Okay. It wasn't far from double digits. We continued to have a good growth there. I would say it's quarter-to-quarter fluctuation. If you remember last year, most quarters was more than 10%, some it was just below 10%. So not a big difference actually.

Guillermo Peigneux: Okay. Thank you. And then I wanted also to ask about 24/7 Connected Services. You mentioned momentum improved, but I am actually wondering whether you could share some numbers on 24/7 installation for us in unit terms or number of installations? And if not, can you compare it maybe with the absolute level of unit installations that you're putting from an equipment perspective? I just want to understand how you penetrate in the market with 24/7 Connected? Thank you.

Henrik Ehrnrooth: So what we've said is that the penetration of how many units we have installed, of course, we sell and then if there's a backlog to install. But how many we installed in the market and are generating revenue is because as you know, these are – we sell this as a commercial service and that's a significant uplift on the average service price with this included. So we are currently in the range between 5% and 10% of our service base, if we have the 24/7 Connected service.

If we look at total number of connected equipment which sometimes gets confused here, then we're talking 400,000 or 500,000 something like that, but then we talk about legacy connectivity as well. But if we look at the new 24/7 that comes with actually strong revenues, we are between 5% and 10% from the – of the maintenance base.

Guillermo Peigneux: Maybe a follow-up on that. Every – do I understand that every new unit, elevator unit that you are installing will be with 24/7 Connected?

Henrik Ehrnrooth: Right. I would say every KONE DX Class elevator comes with connectivity built in. That means that we can just like that switch on the service. And but of course it needs to be something customer needs to decide that they want to have this service. In the countries where we don't have DX Class elevators, we are shipping most with connectivity, but for example in China it's not – the fitting of the connectivity device is so quick. So it's actually not the big point.

But I would say that where do we have the highest hit rates for this service, it's with new conversions. So there actually hit rates are pretty good. That's where it's growing the fastest, of course, in – then in Europe and other countries, it's more selling it to existing elevators. But not every unit comes automatically connected yet. But when we have DX across the world, then every unit will automatically have connectivity built in.

Guillermo Peigneux: Thank you very much.

Operator: We'll now take our next question from Andre Kukhnin from Credit Suisse. Please go ahead. Your line is open.

Andre Kukhnin: Good afternoon. Thanks so much for taking my questions.

Henrik Ehrnrooth: I don't know if Andre is –

Operator: Apologies, if your mute function is enabled, could you please disable it?

Henrik Ehrnrooth: So Andre, we could hear your first part of the question, but then it went silent.

Operator: Apologies. Maybe we could re-queue that question. In the meantime, we'll take our next one from Lucie Carrier from Morgan Stanley. Please go ahead. Your line is now open.

Lucie Carrier: Thank you and good afternoon, everyone. I have a few questions. The first one I was hoping you could give us, if not quantitatively but at least qualitatively, the growth or decline you have seen between your non-residential, your residential and your infrastructure business in terms of order momentum in the quarter?

Henrik Ehrnrooth: Well, I would first say that infrastructure usually, those orders are quite lumpy. So they are – you sometimes book bigger orders. And so those I wouldn't compare quarter-to-quarter. I would say that that market is overall strong and over this year we have booked quite good orders on that.

In general, residential is less impacted than commercial and commercial is less impacted, for example, than retail and hospitality and things like that. If you look at residential markets around the world, apartment sales in most countries are actually very strong and those markets are robust. And that's why I think they will be more resilient.

Clearly in Southeast Asia and some Asian markets, where lockdowns have been very severe, also those markets have been impacted. But actually Europe quite robust in most places.

Lucie Carrier: Any number you can maybe attach to residential and non-resi or at least some sort of ranges? I mean, non-resi could be less and more impacted than resi, but still be quite positive. I mean, what are we exactly talking about here in terms of impact on either resi or non-resi?

Henrik Ehrnrooth: Are you talking about our orders or the markets?

Lucie Carrier: I was talking about your orders specifically, yes.

Henrik Ehrnrooth: Are you talking about our orders? Well, I think it would go quite into detail here. What I would say is that resi orders or markets in general more resilient and then major projects which tend to be more commercial of course or mixed use – well, mixed use will perhaps be a little bit better. They are more down. So I would probably leave it there.

Ilkka Hara: Yeah. And then more granular goal on the quarter level, it makes less sense.

Lucie Carrier: Okay. Thank you. Okay. My second question was actually around the cost that you have in terms of shift this year. Ilkka, you've spoken about some discretionary cost will potentially come back next year. But I'm guessing also this year you had some increased costs regarding hygiene and safety and so on. Can you maybe help us understand how much of a discretionary cost reduction you have seen year-to-date, and how is that offset either fully offset or only partially offset by increased costs due to COVID-19, so we have maybe a better sense of the balance of the shift for next year?

Ilkka Hara: Yes. And I would – also when it comes to the costs related to COVID-19, I think there's direct costs which are more the PPEs, like you said, but there's also cost of complexity. So things are changing rapidly, so you need to shift for example deliveries and so on. So that's also then additional cost that we have in place. And this complexity actually probably is bigger cost than the direct costs.

But overall, if I look at the discretionary savings we are having for year-to-date, it is some tens of millions. But net-net, I would still say that, it is a slight headwind from that perspective. So clearly the cost of complexity, especially is something hard to measure, but clearly is influencing the overall cost levels.

Lucie Carrier: Thank you very much. And my last question was maybe on the Connected Services. I remember at the Capital Markets Day you made the argument that the scale of your install base was giving you an advantage, especially versus a smaller provider of services. Can you explain maybe which type of data you collect specifically? I mean which kind of KPIs are really important from your standpoint? How are your maintenance employees are incentivized to make sure they perform a good collection and monitoring of the data, because obviously for a lot of them, this is quite a new thing? And how also should we think about this scale argument considering that half of the elevator you maintain are not of your own manufacture, if I understood well from the Capital Markets Day material?

Henrik Ehrnrooth: Okay. There were many questions in one, and wanted to quite to understand what you said out what data our employees collect. Of course, they input data. We have – I think we have the leading field systems in the markets, so we can of course gather data what they've done and what the interaction. So that's something that automatically happens.

But I think your question is more related to the connected equipment than what data we collect and utilize. That's a proprietary information that we utilize. But of course, what are the most important things they have to do with movement of doors, it has to do with electronics, it has to do with the accuracy, with right comfort and a lot of things like that. We look at all those parameters. We learn from them. You create service needs.

My point in the Capital Markets Day is that before you have several thousand units connected, you're not going to have enough information to create good service needs and good algorithms to create that predictability and the understanding going forward. And that's why I think the big players have a significant advantage here.

Then you talked about that many of our equipment are non-KONE. That's okay. We connect them as well. So that doesn't really again change the picture here at all. They are connected in a slightly different way, but we get almost as good data from them as we get from KONE and we're learning there as well more and more the broader base we have. So that's perhaps a little bit more flavor on what we talked about in the Capital Markets Day.

Lucie Carrier: Okay. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We now have Andre from Credit Suisse back on the line.

Andre Kukhnin: Hi. Can you hear me now?

Henrik Ehrnrooth: Now we can hear you, yeah.

Andre Kukhnin: Great. Thank you for putting me back in, and good afternoon. I wanted to ask first a follow-up on the question on those kind of long lead orders into new equipment into near North America. When you get kind of customer indications or inquiries or RFPs that I'm sure you can collect and measure as well, has there been a trend in that during last three months?

Henrik Ehrnrooth: Yeah. Of course, we have a whole funnel where we start with opportunities and you work them through the funnel, get to tenders and all of that. And it varies. Many markets actually that activity has increased a bit, but there is of course then more of our proprietary commercial activity.

But I would say that commercial activity is not that bad actually at the moment. We can see decision-making takes some time. But that's usual thing in a time like this that if we can get more clarity, then many of these would come through. If not, if it continues to be uncertain and we probably see delays and some of this opportunity is not coming to fruition. But I would say commercial activity overall is not as bad, it's actually quite okay.

Andre Kukhnin: Okay. Thank you. So if I interprete this, just kind of size of the funnel was actually not too different to pre-COVID, but everything takes longer and conversion is slower, would that be fair?

Henrik Ehrnrooth: It again varies a lot. In some countries, actually it's up. In some large countries it's up, and I'm talking about outside of China. And some, it's clearly down. So again, it's clear that some of the hardest hit Southeast Asia market is down. There's no question about that.

Andre Kukhnin: Thank you. I appreciate the detail and I understand it's commercially sensitive. Can I then move on to China, and it's another quarter where we talk about intensifying competition and yet you outgrow the market substantially and with positive price. Could you talk a bit more about the kind of secret sauce that you have there and how that's achieved? And maybe we can look into a bit more detail on KONE brand versus GiantKONE? Or is it, i.e., specific vertical or sub-segment of the market that maybe you were not fully present in already that you expanded to thinking along the lines of MonoSpace 300 launch in the US? Is that the kind of outcome of something like that?

Henrik Ehrnrooth: Well, as I said, as a whole it's a bit of a secret sauce. And that's how we want to keep it. But to be serious, I think we talked about it many times. To be successful in the China market, you need to be strong on a broader basis and have really the trusts of the customer base that you are a reliable partner. And that takes many years to build up. And we can really see that we're reaping the benefit the fact that we would – I would claim the first player who really started to focus on service in China and that was 10, 15 years back.

And therefore, we have a footprint there. We have an excellent product portfolio. And constantly come out with new solutions. It's in the end, that's how you build long-term trusts with your customers. That's what it's in the end all about.

When we see when the market has now been active and many developer actually want to speed up their projects, we have a delivery capability like no one else. As I think we talked about it, we can deliver an order in seven days from order to site delivery today. My understanding no one else gets really close to that in China today.

So they're kind of then these special things, but it's in the end you have to have a broader competitiveness. Starts with your people, starts with your footprint, your service, your ability to install, your products and all of that. So you cannot really pinpoint one thing. If it will be just one thing, it would of course be easily copy. But I think we have a fantastic team in China who has done absolutely great job there.

Andre Kukhnin: Thank you. And my final question is on order intake margin. Could you remind us when you comment about that at the current cost base, right, so with current set up and kind of raw material component costs. And hence, if I think about you delivering these orders in nine months to 12 months time, and if we assume you have further productivity, then it would not be fair to assume that margins can be higher even on those orders received in Q3 subject to all the other things staying the same?

Ilkka Hara: Well, first, we do think about our margins based on a certain productivities, or if we would have better productivity, then we're estimating, yes, we could deliver those at the higher margin. But that's obviously subject to us being good at driving that productivity. And then for the cost base, we look at where we are now and use that as a proxy. Obviously, we don't have a crystal ball when it comes to raw material prices going forward.

Andre Kukhnin: Got it. So just to double check, in that comment on the margin of orders received, you assume – that's assuming future productivity improvement as you do every year?

Ilkka Hara: Some.

Andre Kukhnin: Got it. Thank you very much for your time.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Rizk Maidi from Jefferies Group. Please go ahead. Your line is open.

Rizk Maidi: Yes. Good afternoon. Thank you for taking my questions. I'll take them one at a time. So the first maybe as we head into the yearend, can you just maybe help us on your China outlook in Q4 and perhaps the early part of 2021? I think, Henrik, in your presentation, you mentioned some tightening financing environment on the developers side. Any color on there would be it very helpful, please.

Henrik Ehrnrooth: So what is clear is that the development and marketing Q3 was extraordinarily strong, so we shouldn't expect as strong of a development in Q4. But looking at the next couple of quarters, actually outlook looks good. So we expect a favorable development in the market, but clearly not at the pace we had in Q3. So there, we can see some impact of these cooling measures, but still the momentum seems to be seems to be there. So hopefully that helps.

Ilkka Hara: And maybe to add to that, from a financing perspective, which was the second part of the question, yes, we've seen in Q2 maybe a bit easing off of liquidity in the market overall and some of that impacted also the developers, our customers positively. Now in Q3, we've seen somewhat tightening liquidity on overall market and also for our developer customers. So that's really a bit color where we expect certain tightening in the market for the remainder of the year.

Rizk Maidi: Okay. Thank you. The second one is just a follow-up on Andre's question on the comment on the margins in the orders. So my understanding is you're getting a higher mix from more China orders, which should come at a – as a positive impact there on the margins, and that is offset by sort of less repair business as we speak. Can you perhaps just walk us through why you've changed your wording there from a slightly positive to now stable exclusive of positive mix in China?

Ilkka Hara: Well, first, I think we wanted to give a bit more color this quarter where the orders from China were exceptionally strong I would say. And for the rest of the margins that sit outside of China, we've seen more pressure on prices, and as a result then our orders received margin has been stable as end result.

Rizk Maidi: Okay. Thank you. And then the last one and very quick one, is just on the duration of your order book. I know that you have a higher mix of China orders plus more volume business versus sort of large projects. Is it still nine months to 12 months?

Ilkka Hara: For China, that's clearly the fastest rotating market. So it is somewhat below nine months. It's been actually this year accelerating a bit the rotation. But overall, residential strength is also then faster moving than some of the major projects, which normally might take years to be delivered.

Rizk Maidi: Okay. Thank you very much.

Operator: Thank you. Our next question comes from James Moore from Redburn. Please go ahead. Your line is now open.

James Moore: Yeah. Hi everyone. Henrik, Ilkka, Sanna, thanks for taking my questions. I've got three. I'll go one at a time as well, if I could. Firstly, could we get back to 24/7 please? Could you talk a little bit about what is the magnitude of the price uplift that we're seeing in the latest quarter or so? And has that changed compared to say a year ago in terms of a price uplift against a standard maintenance contract? And is that price uplift varying between the different regions around the world, or is it broadly similar Asia, Europe, US?

Henrik Ehrnrooth: So actually I think pricing is maybe even slightly better this year than last year. It does little bit vary from region to region. US would be the highest, Europe then and then Asia somewhat lower, but pricing is actually being continue to be good there. So I think customers see the value and understand why it actually improves their business in a positive way.

James Moore: And are we talking about a 10% price hike against the standard contract or more than that?

Henrik Ehrnrooth: Much more than that.

James Moore: Or less?

Henrik Ehrnrooth: Much more than that.

James Moore: Thanks. Would you care to go any further?

Henrik Ehrnrooth: No, it's okay. You can buy one of those services, then you find out.

James Moore: It might take me a while to figure how that – how to do that. Maybe I'll switch to the balance sheet. You've got a very strong balance sheet.

Henrik Ehrnrooth: Yeah.

James Moore: You want to keep the firepower in case the asset moves again in the future, or is it time to think about less cash?

Henrik Ehrnrooth: I would say clearly the logic of a deal, there hasn't gone anywhere but we closed our files. We're moving forward. We are in a good shape as we are. I would say in this crisis, of course, we have a very strong balance sheet. And with the cash flow now it is truly strong. What I would say is that one of the learnings to me out of this crisis and people may argue with that is that the value of a strong balance sheet has been very high.

When the crisis hit us, I didn't have to and Ilkka didn't really have to spend any of our time at that point in figuring out that how do we stay liquid. We could immediately be on the front foot how do we make sure that we can really do the best business continue to improve, strengthen KONE and do the right thing with our people without have to think about that. That was actually a huge important factor.

Do we need to have as much cash as we have on the balance sheet? The answer is probably no. But generally I think a strong balance sheet has really been positive to us.

James Moore: Right. And finally, China pricing on new order intake, positive, which is great. Has it gone up a bit with the strong demand in the quarter? We're talking around a 1% or is it more meaningful than that at the moment?

Ilkka Hara: I wouldn't go to too much detail on the pricing. It was a positive contributor. There's obviously – it's not a science. You have different products and the like-for-like pricing analysis.

Percentage doesn't really give you a good picture of that development, but it was a positive contributor.

James Moore: Great. Thank you very much.

Operator: Thank you. We will now take our next question from Andrew Wilson from JP Morgan. Please go ahead. Your line is open.

Andrew Wilson: Hi. Good afternoon, everyone. Thanks for taking my questions. I'll try to be quick. In terms of the pricing I think it's been very helpful in terms of clearing up some of the commentary on China and it clearly seems like you're outperforming quite significantly there. If I can just sort of drill into the comments around the pricing intensifying, is that solely a comment around equipment or is it also relevant for service? And if you are seeing the pricing intensifying, is that by the local players or is it by the sort of large OEMs?

Henrik Ehrnrooth: I would say that's mainly a comment for new equipment more than services. In China, you have about 15 quite large players, so you can really pinpoint towards anyone. I think it's everyone in that market is fighting very hard to gain part of that market growth and being the largest market, of course, everyone is very focused on it. So I won't pinpoint that it's one or the other. I would say it's everyone.

Andrew Wilson: Okay. And just a couple of questions on 24/7 actually following up on one of Lucie's questions earlier. I think we were talking around the engineers and the way that they work in the field. Am I right in inferring from your comments that the engineers when they're out on a site, they are documenting all of the repairs that they make, that is being logged and that is data that you use in terms of helping to provide that connected service standalone? Just trying to literally understand the practicalities of how the way the engineers' working has changed over time?

Henrik Ehrnrooth: Clearly, they document what they do through their devices they have in the field. So the data that we have for any given elevator is what they have used, but of course also the data that we collect from sensors and through the connectivity that we have into these elevators. So the fact that they've been collecting data for what they do and fault codes and what have you, that has been there, of course, for a longer period of time.

Now they have more information at their fingertips to understand what they should do. And of course, if there's a fault about to happen, you get a direct – it goes directly to the field device of the technician to inform them that they need to do intervention. And they also have now much more support from our technical help teams that can then guide them and give them better information based on the data that we have.

So it comes from many different sources. And that is something you just build up over a long period of time.

Andrew Wilson: And I guess just an additional question on 24/7. I think historically you've sort of said, I think it was that it could be a million connected elevators or you could have a million of in maintenance space. I guess just of the development that you've at 24/7 so far, have you changed your sort of ambitions, or I guess, increased or decreased confidence in what that might actually mean for the business over the longer term in terms of kind of percentage of the maintenance base you can get on 24/7?

Henrik Ehrnrooth: I don't think we have changed our ambition here. Perhaps in the beginning, we thought it would be faster to roll it out, perhaps what's been a little bit slower is as we have a commercial model to sell, to install and all of that, has been somewhat slower than would have predicted a few years back. But the business case is very much there, pricing probably better than what I thought a couple of years back. So it's a little bit of both, but it's the fact that we think that the majority of our service base in the future will be connected, that view hasn't gone anywhere. But we haven't also given a timeframe when we think that's going to happen.

Andrew Wilson: That's very helpful. Thank you very much guys.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. Our next question comes from Lars Brorson from Barclays. Please go ahead. Your line is open.

Lars Brorson: Thanks very much. Hi, Henrik, Ilkka, Sanna. Three certainly as well if I can Henrik, all relating to your service business in Europe and North America. Starting with modernization, I just want to try and understand exactly what the message is on modernization going into next year to try and sort of scope the earnings impact from that drop in order activity we've seen. So if I understand you correctly, generally speaking, we're talking about order delivery times for modernization at somewhat shorter than for new equipment, so call it maybe six to nine months in Europe, I don't know a 12 to 15 months in North America. But is the point here that the downshift you've seen in orders and the modernization in developed markets in the last couple of quarters will predominantly hit your P&L in 2021.

Henrik Ehrnrooth: That's correct, except for the major projects, the large – the volume business there would have a lead time of maybe three, six months, depends some of the type of project.

Ilkka Hara: And also obviously next year what happens going forward is also impacting next year, so it's not only the backlog we have.

Lars Brorson: That's clear. And maybe just on the earnings impact, I know you're not going to give me the margin on modernization. But historically, we've talked about modernization being closer to a new equipment margin than maintenance. You've obviously done well in the last couple of years raising margins in modernization. Maybe just relative to group margins with that 13%, can you give me some help with where modernization sits today?

Henrik Ehrnrooth: It's still somewhat below. We've improved it, but it's still below.

Lars Brorson: Do you think you're outgrowing competition in modernization, if I can ask?

Henrik Ehrnrooth: I think in the past couple of years I think yes we were. Now, maybe more in line with markets, difficult to say that market how we are. I think in some place I think we think we've outgrown and maybe some other places we haven't. So I think mix is our best understanding right now.

Lars Brorson: Secondly, Henrik on your repairs business, I understood you before that's fair that is obviously very linked to activity. I wonder whether you have some sense of how much of a boost in Q3 that might have been from a catch up in the second quarter, i.e., repairs not done during lockdown and to what extent we should worry about to say new lockdown measures starting to impact at your repairs business in the fourth quarter?

Henrik Ehrnrooth: Well, that's a good question. We don't know what kind of lockdown measures we will see in the markets at least what we've seen so far of course would be more targeted lockdowns and less impact so far. I think that's something we have to wait and see.

Was it is a catch up from Q2? I think it was more normalization than anything. That's my understanding.

Lars Brorson: And finally on maintenance contract, if I can. I appreciate your point it continues to be resilient, but I think I did hear you at the Capital Markets Day talk about some descoping of maintenance contracts, particularly in the US. I appreciate the impact is pretty limited still. But can you help me understand whether that trend has continued and when we might see the impact of that on your P&L? In other words how real time is that? Is that also perhaps more of a 2021 impact?

Henrik Ehrnrooth: Well, I think we have to separate between two different things here. One is that probably it's more in the United States and other places that there's been concessions related to service contracts, not broad or not the big issue, but perhaps more than other places, i.e., that you have got a concession not to pay for a month or something like that your maintenance fee.

Then, I think, Ilkka talked there about that there was some descoping, but I think it's not that big of a difference in the end. Either if you have a fully comprehensive contract, everything is included. Then if you have descope your contract not everything is included, then you have an opportunity to sell that as repairs. So in the end, it's not that big of a difference. The discretionary part can little bit fluctuate more, but I wouldn't – not a huge thing.

Ilkka Hara: Yeah. And if you look at the development for the revenue in maintenance business, the contracts revenue actually was growing quite nicely around about 5% in the quarter, and then the impact to revenue, overall maintenance revenue was coming from the repairs business.

Lars Brorson: That's helpful. Thank you, both.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Tomi Railo from DNB. Please go ahead.

Tomi Railo: Hello. It's Tomi from DNB. I know that the guidance range for the fourth quarter is quite wide, but maybe you could just remind us about the main elements there, and if you have confidence to say but they are EBIT margin would be flat or up from the last year's fourth quarter, especially maybe given – keeping in mind that during past two quarters, the margins have actually improved year-on-year?

Henrik Ehrnrooth: I would first at least give our perspective that we've been trying to give as accurate of a guidance as we've been able to throughout this year and I think we have quite a specific guidance for the full year. Of course, that gives a range for Q4. That's clear. That's always going to be the case.

As I said in my summary that we expect a solid full year, we haven't commented on a margin for Q4. What we had to remember is that we actually had quite a nice margin uplift last year in Q4. So we have a tighter comparison, but that doesn't mean that we are not expecting a solid and good quarter for Q4 as well.

But of course it's always going to be a range of outcomes, I think, as we all see that the market is more uncertain now than it was just a couple of months back. So if we put all of that in context, I think we have quite a specific guidance out there.

Tomi Railo: Okay. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Wasi Rizvi from RBC Capital Markets. Please go ahead. Your line is now open.

Wasi Rizvi: Hi. Yeah, thanks for taking my questions. Just one left for me. It's slightly just stepping back in the Americas. Could you just help me understand what's happening there a bit more? I mean all segments down double-digit on orders. I mean, is the bar situation there really meaningfully worse than Europe and the rest of Asia? I mean is there some short-term election uncertainty or is it affecting your market position somehow? Just trying to understand if there's something more underlying we should be aware of. I mean, we had another industrial company report this morning with exposure to US construction, and obviously – they're much shorter cycle, but the message was quite different. So I'm just trying to understand what's going on.

Henrik Ehrnrooth: Yeah. I would say you have to remember that our industry is very much exposed to commercial sectors. If you talk to someone who is more residential construction, they don't usually have elevators in United States because more of the single family homes. So I think you need to look where people are operating. And so you can say that the US is – that there are a couple of things.

One is that very much exposed to commercial. Retail has been important. And we can say leisure. That's one aspect. And then actually beginning of the year, as we had discussed earlier, we started to see the US market already coming down slightly. So I think these are perhaps the factors that are the drivers of it.

Wasi Rizvi: Got it. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Daniel Gleim from MainFirst. Please go ahead. Your line is open.

Daniel Gleim: Yes. Good afternoon. Thank you very much for taking my questions. I actually got three I understand on 24/7 Connected Service, and apologies for belaboring the point. The first is on the short-term impact. You gave us some guidance for the incremental service growth tailwind you're currently enjoying. And I'm wondering whether you could give us a little bit of guidance for the next 12 months whether this tailwind is going to meaningfully change, or in other words, are we already witnessing peak tailwind, or is this something you could even step up in the quarters to come potentially buying more markets coming – becoming addressable and the like? That would be the first question, please.

Ilkka Hara: Well, geographically actually for 24/7, we have a good coverage already, so large part of the maintenance markets that we have are covered. So geographically it's not so much of an expansion story from my perspective. Then second, I think, the key for us really is to ramp up our capability to sell and there we have opportunities to continue in acceleration of the commercial effort.

So, well, not – in my mind, I think we've done a good job bringing the momentum up there, but there continuous to be good opportunities going forward also to see further revenue growth as we ramp it up in units across the globe.

Henrik Ehrnrooth: I would only – little thing I would add to Ilkka is that, let's remember we're still quite at the beginning here.

Daniel Gleim: Thank you for that. Maybe moving on to the long-term impact and I asked a question that was already raised a little bit differently. Do you think in the long-term this connectivity now that it's built in between your elevator class and potentially competitors built to the same in the future, that is 24/7 service will become standard in the elevator industry? And with other words that the addressable share within your maintenance space eventually will go to 100%? That is the first part of the question. And the second part tied to that, if it becomes standard in the industry, do you think the meaningful average selling price increases you're currently enjoying will last in the long-term, or is this going to become more a commodity?

Henrik Ehrnrooth: Well, I would first say that, I think, yes, I think it will become more of a expectation in the market that you have it. And you can see that most players in our industry are investing in one form or another in it. And we are all doing it slightly different way, which is I think the sign of very competitive market. So – and we have to remember that who are we selling to, who are is our competition selling to, it's mainly to our existing service base or when we're converting new elevators into the service base. That's where we mainly acting. So there's a huge market for all of us to address.

I do believe that it will continue to be a commercial service. But that doesn't mean that if this service is going to be exactly the same as it's today. So as we – I talked about 24/7 Planner. That's our next step. So we have the base service. And as a digital service, we can constantly build up new features on top of it. And that's what we will continue to do. And that's how we continue to add more value and make sure that it can be a good commercial revenue source continuously.

If we would stop just here, it could be a different case. But no, we're not going to stop. We're going to continue to develop it constantly. And that's just an important perspective to keep in mind. And, I think, we haven't seen anyone else with something like 24/7 Planner in the market yet. So it was again our next step. Next step will be then something else. Let's see what that is.

Daniel Gleim: Thank you. And one last question on how the 24/7 Connected Services works with new elevators you sell. Is this bundled already with the initial service period, or is this something you sell incrementally? So if you look at the penetration rates that you've disclosed with us, is this including initial service periods, or only the elevators that are converted after the initial service period?

Henrik Ehrnrooth: We always look at like-for-like, so we look at both what is converted after the service period. And when we talk about our maintenance base, always remember that we talk always about elevators in the – with the paid maintenance contract. So we all – we don't include in the maintenance base, the ones that are in the first service period, which we probably have the largest base there. So that's always good to keep in mind when you benchmark maybe to other companies. So we always look at like-for-like here.

To your other point that, yes, we are selling it in connection with new equipment as well more and more. That is something that's ramping up quite nicely in some markets. And then it will come in your first service period and then it's actually quite good the conversion rates to maintenance. So we're selling through that. We're selling to our current service base, and of course trying to address all of them more and more.

Daniel Gleim: Very clear. Thank you very much.

Henrik Ehrnrooth: Thank you.

Sanna Kaje: It's time to wrap up.

Operator: Thank you. That concludes our Q&A session. I'd like to hand back to the speakers.

Sanna Kaje: Thank you. Thank you, Henrik. Thank you, Ilkka. And thanks for the active participation. Have a nice evening.