KONE Q1 2021 Interim Report for January-March 2021

April 28, 2021

3:45 p.m. EEST

Natalia Valtasaari: Good afternoon and welcome to KONE Q1 earnings calls. My name is Natalia Valtasaari and I'm head of investor relations at KONE. I'm joined here today by our president and CEO Henrik Ehrnrooth and our CFO Ilkka Hara. As usual Henrik will go through the business highlights for the first quarter and speak about the business outlook for the remainder of the year. And yes by and turn we'll talk through the financials in a bit more detail. Once the presentation is over, we'll have time for a Q&A, for your question and answers, Henrik please.

Henrik Ehrnrooth: Thank you, Natalia and welcome everyone to our Q1 results presentation and I'm very happy to again, present the development to you. So we had overall a good start to the year and that's something I'm very happy about. I think the given a following from a very strong performance during a difficult period, a difficult environment last year, where we performed very strongly and that's the continued again. So I'll start with some of the highlights as Natalia mentioned, both financial basis highlights, but also what I'll talk about now in connection with Q1 results is that how do we see more in more granular way, how the market's developed last year on market share and so forth as we usually do in connection with our Q1 results? And some other business, highlights for the first quarter, then I'll hand over to -- then I'll talk about market development and over to Ilkka for financials and wrap up as was mentioned with the outlook. Q1 had good growth in our sales and our earnings, both grew at a very nice level. Again, one of the highlights was our cash flow continued to be very strong. Last year, we had an old time record by actually quite some margin cash flow and we continued a very strong development in Q1. And what is positive is that we are seeing clear signs of recovery in market activity. So seeing that confidence is improving and customer activity is increasing as people are seeing that we are returning back to offices, although we have to remember that the situation remains very different. Everything from China, which is at above pre-fund dynamic levels, so of course, a very challenging situation still in India, which is very concerning and of course everything in between but we'll talk about that a little bit more today, how we see that recovery happening and how we've been able to capture opportunities in this market. So Q1, orders received, following actually a high comparison last year when we actually grew in Q1 last year, was now €2.75 billion, orders received grossed 1.3% in comparable currencies.

Also our order book is at very solid level. I think about the type of year we had last year after that it's at 8.2 billion down 1.9% so solid and good order book. Our sales grew at 9.1% to €2.3 billion so a very good start to the year here. Our operating income or EBIT grew by 26.7% to 250 million, so a strong increase. So we're comparing a now more, adjusted EBIT to last year, now there's no difference between our EBIT and adjusted EBIT because as we had talked, the acceleration program ended, so there's no cost in between here. So, now if you look at the adjusted EBIT, that's also improved by almost 22% or from 206 million to 250 million, margin from 9.4 to 10.7. It's a good profitable growth. And as I mentioned, very strong cash flow at 425 million, so there's an EBIT of 250 million, so incredibly strong cash conversion. And of course earnings per share also up and up 26.7%. Here I usually mentioned the reason why we'd done well, and that's a force great work by all of KONE's employees. I think we've shown that we know how to navigate this environment. We continue to be able to deliver on our promises to our customers and that shows in this result, despite a difficult environment, we have operated in a very good way and in a very normalized way in many parts, in most parts of the world in fact. So overall, good start to the year. Some of the business highlights; as you remember in January we launched our new strategy phase as we always do every third or every fourth year and we talked about the couple of big shifts that we are driving. One of course, rate in sustainability, the other one, how will we scale and grow our value added solutions? What are we trying to do with this really to differentiate further through adaptability and sustainability? So seeing that, when we are getting out this pandemic, I'm quite convinced that we will return to offices quite soon. It will not be exactly the same as in the past will be more mixed mode of working, but we see how important offices are for innovation, for sense of belonging, for apprenticeship, for learning and health and wellbeing. Those would be key things for officers in the future and hopefully building owners, when we talk to them, they also see that they have to adapt. They need new services and need new ways to operate things to be able to meet the needs of today's tenants and users of buildings. To the productivity that we are delivering, we can bring now in an array of solutions to bring this adaptability to our customers.

So that's really what we are focused on. So we have connectivity and our APIs to bring both our own and third party solutions. We have now rolled out DX class elevators, in Asia-Pacific, Europe, Middle East and Africa, America is still to come, and we can see that the sales of our 24/7 connected services has actually accelerated, we had a really good first quarter in how we accelerated the sales and here we can see that the pricing of these services remains good. And I think it's clear that we have a differentiated offering for 24/7, given the pricing that we are able to command for that and that really shows you that value to our customers. Last year, we made many commitments to sustainability. In the first quarter we made another pledge, which was around diversity and inclusion. I think this is critical to attracting the best people on it, but also inclusion to actually make sure that everyone can contribute and get their voice heard and making KONE just constantly a better place to work, more innovative place to work. And as part of this focus around diversity and inclusion, of course there’s a lot of training programs for our leaders here, but also we've made one specific pledge, which is to increase the share of women at director level from 19% last year to 35 by 2030. So further pledges that we made here. Also today, we have released our sustainability report for last year, our overall reduction in our own carbon footprint, down 8.9%, clearly better than the 3% target that we have had, and now we plan to increase the targets. COVID helped us but we also made some fundamental move or progress here so we can see if we go in the right direction. Of course, last year we, committed to science-based targets for significant reduction of greenhouse gas emissions, not only through our own operations, but also the life cycle of our products and solutions, so very significant pledges here. Yeah well again look, many external recognitions for the work we are doing here, which is important and also we could see last year that safety improved significantly, again and our industrial injury frequency rate, which is how we measure it is at 1.2, which is quite a good benchmark to other companies, but of course we have way to zeros, so we can always improve here as well. Overall improvements include improvement in this front, as well.

Now as I promised, we'll dive a little bit deeper into how markets developed in 2020 overall and what's happened to our market position. I know it's already a quarter ago, but now we have more granular data here. If you look at the total elevator and escalator market globally last year, monetary value across businesses, it declined at about 3%. So we can see that this is a very resilient business that we are in. It's clear that there are very big differences market to market, but overall that was the level. If we then look at a new equipment market, the new equipment market was close to 1 million units in total last year and it declined just over a percent so actually quite stable. KONE actually grew our units that we sold last year by 4%. In total we sold 180,000 innovators and escalators last year. That means that we increased our market share by about a percentage point. So we continued to improve our market share and when we looked at the increase in number of units sold last year, I don't think anyone did more than we did last year. So a good improvement in our market position and shows the competitiveness that we have. And of course, China was the strongest market, central North Europe okay-ish, but then significant declines in North America and the rest of Asia-Pacific. So we then look at the total installed base in the world, so the maintenance space has over 18 million units. Here we count both units in service and unit in first service. This market grew at over 5% last year so continued good development. As KONE, we continue to be again, the fastest growing of the major players in the industry. We grew our service service-based by four and a half percent, so over 1.4 million units. This 1.4 million units, that is what we have in our service base plus then we have more than 10% of that additional, in first service, which is of course, as you know, so is part of the new equipment sales. So we have 1.4 million plus what we have in first service and with that, we are close to 10% market share and again, had market leading growth in this area, again last year. So overall, we could see that our market position improved and competitiveness remains very strong.

So let's look at this year then, the market development. This is what's happening in the external markets and let's talk again, as we're looking at now, a few quarters on the usage of elevators and escalators. We've now shown this data throughout the crisis and we can see that we are going in a better direction. As mentioned before, we have about 100,000 connected units behind this data and in all countries, we can still see that the number of stocks per elevator is still clearly below where it was pre pandemic, but if you look at the numbers to the right, here we compare where we are today compared to beginning of the year. And we can see that in most countries, we have returned to buildings, more movements around US up 21%, so we can see that economies are opening up because of some successful vaccination programs that they are returning and going in the right direction and I would expect UK, now when many companies are returning to offices to also go sharply up indeed in the coming weeks. Why are we looking at this data? This is a good predictor of discretionary activity in maintenance on repairs, spare parts, but also, fall outs and service needs and so forth. That's why we track this data and we can see that we're going in a better direction and we think that that also bodes well for the maintenance markets to recover or the discretionary activity to make these markets recovering. So then in Q1, we will start with new equipment markets, North America, the markets compared to Q1 last year declined significantly. Markets with strong Q1 last year, but then of course declined to throughout last year, now we're starting to see signs of improved activity, but Q1 was clearly significantly below where it was a year ago. Europe, Middle East and Africa, slightly below where it was a year ago, central North Europe, at a better level declined slightly, clearly a more challenging situation, South Europe, perhaps and Middle East, pretty stable. And I would say that EMEA markets were very strong last year so actually they have held up quite well, but big differences within EMEA. Asia-Pacific okay, again, China started to recover already in Q2 last year, very strong recovery in Q3, recovery in Q4, continued recovery, now with strong growth year over year, whereas the rest of Asia-Pacific, actually, declined clearly.

So big differences, market to market and in services, North America stable; both maintenance and modernization market, modernization market actually is, remarkably strong. And we're seeing a similar pattern to what we saw after the financial crisis. Actually the modernization market recovers faster than a new equipment market, but maintenance market also stable. Europe, Middle East, and Africa, stable maintenance markets but clearly down modernization markets. Here, I would highlight that much of this is residential, which is a very big market in Europe where a lot of decisions have been postponed and I think when we have a more, starting a more normalized situation, we believe that this will also start recovering. In specific good development maintenance particularly China and modernization also for development in China beat the other parts of Asia Pacific. So let's dive a little bit deeper into China for Q1. We know it's a very important market to us and there we saw a significant growth in the market year over year. It's a very strong recovery. Competition is tough there, intense competition, overall in the market but it is recovering. From economic perspective, we all could see a very strong growth in the Chinese economy in Q1 and also we can see very healthy activity in the real estate markets, demand for apartments continues to be strong. So that is really what is driving activity in construction of course, in our business but there continues to be a lot of restrictions ever financing for developers, but also mortgages and purchase terms for consumers but the demand is definitely there despite these restrictions. When we look at some of the statistics, we thought let's not only compare to 2020, but also 2019, because we know that Q1 last year was actually full of very severe to lockdowns in China and therefore we clearly have strong growth. So real estate investments, up 26% year over year but if you compare to 2019, the compound rate of 7.6%. So the point is that we are back in construction activity clearly above pre pandemic levels. Residential sales volumes up also a lot over the last year, but also 12% compounded by 2019, new starts compared to 2019, slightly below but as we know, that fluctuates quite a lot. The price continues to go up, somewhat in a healthy way. So overall, the way we see the Chinese market also for the rest of the year is that we see a robust solid market there. So that's about the external environment, I'll now hand over to Ilkka to dive a little bit deeper into our financial development.

Ilkka Hara: Thank you, Henrik, and also warm welcome on my behalf to this first quarter results announcement webcast. I'll go through financials in more detail and as for the last quarters, I've been using this overview, I'll start there. So a few highlights on how we developed in the first quarter. First, I would say China, so across all of distances, as well as in orders and sales; it's a very strong performance there. China clearly has and continues to recover in a very healthy way. Secondly, I would raise also the fact that, so we've talked about it in the last quarters, but the decision-making, the modernization business is slow and impacting our orders received development and also that is having an impact to our sales development in the modernization business, which is down as a result. At the same time as talked about, even though the restrictions have had an impact in first quarter, we do see that new equipment sales continue to be growing also outside of China. Let's look at some numbers in more detail. Now start with orders received. For the first quarter, the orders received were 2 billion 76 million, on a reported basis down 1.6%, but growing on a comparable basis, 1.3%. As seen on the previous page clearly, one of the drivers for this development was the performance in Asia-Pacific and particular in China. Where our orders received grew both in unit as well as in monetary value, significantly. Prices were stable in the quarter and the mix had a slight negative impact in China. To me, that's a very strong performance because actually, if you look at our performance in the previous year in 2020 first quarter, we grew then despite the market being down due to COVID. So the comparison point was also a tough one, then if you look at the overall margin of orders received in the quarter declined in the slight. This point, prices being stable, we did see raw materials going sharply up in the quarter and forcing the margins to be slightly down.

Let's move then to sales. Our sales for the first quarter were 2 billion 326 million, growth of 5.8% on a reported basis and on a comparable basis, a strong growth of 9.1%. From a research perspective, new equipment grew 17.9%; our maintenance grew 3.2% and as already said modernization was down 4.2%. Geographically EMEA grew 1% whereas the Americas declined 2.6%. Asia-Pacific grew strongly, 26.8% and again there, the strong deliveries and the new equipment business in China, was driving this performance and we saw over 30% growth in our sales in China. Into adjusted EBIT, there are a few highlights from these results. I would call out adjusted EBIT as one. We grew 21.5%, our profit to 250 million and also our adjusted EBIT margin grew which is, 10.7% up from 9.4% previous year. And if you look at comparison point last year, obviously been impacted by COVID, but if you look at the previous year 2019 first quarter, we were also up against that 30 basis points in my mind, good development from a profitability perspective. Key drivers for that growth punctually and positively, also the fact that our pricing, the orders previously received has supported to impact productivity to develop positively as well as we continue to see lower discretionary spend having a positive impact. So good performance from an adjusted EBIT perspective and as Henrik already highlighted, there no longer is a difference to [inaudible] program between adjusted EBIT and EBI but we continue to see the tail-end of the savings that we're realizing in our results and we're progressing well there. And last into cash flow, obviously one quarter is a short time to look at cash flow development, it does fluctuate on a quarterly basis but we've continued to see in the first quarter, a very strong, exceptionally strong performance in our cash flow at 425 million. Operating income, having a positive impact but also at working capital in further negative and having a positive impact with basketball, both from my thoughts receivable perspective, as well as advanced invoices in all the instances contributed for it, very happy to see cash flow developing this strongly because we always said, one of the best proxies for the health of the business overall. So with that, I'll stop and hand over back to Henrik for market and the business outlook, Henrik.

Henrik Ehrnrooth: Thank you Ilkka. So let's wrap up with how the rest of the year looks and let's start from overall markets. As I mentioned, in new equipment Chinese market expected to grow slightly. So we expect the markets for the rest of the year to be solid there. The rest of the world, we expect markets to gradually recover. As I mentioned several times that we've seen a good increase in activity in many places. Maintenance markets expected the resilience to force the impact we've seen from a lockdown measures and discretion activity has had an impact, we think both, so that will start to improve over the year. Any modernization, it is expected to gradually recover as we're seeing improving confidence in the markets overall. And then to our business outlook, we now expect our sales to be in the range of two to 6%, maybe the zero to 6% comparable currencies and we expect our adjusted EBIT margin to be in the range of 12.4 to 13.2%, basically the range of 12.4 to 13.4 and of course this assumes that the exchange rates remained at the April level. There are many things supporting our performance; we have a solid order book at maintenance base that we've seen and also we continue to see the benefits of the improved margin of orders received that we had during last year, now the orders that we are developing or delivering and we actually have had a very positive development continuously in our quality and productivity. These two of course, always hand in hand, but there's been good development there and that's of course much behind the results today, but there are a number of things burning our results. Increase material and logistics costs, in the beginning of the year, we expected that to be about a 50 million headwind. Now that's around a hundred million headwind so we could see as Ilkka already mentioned that significant increases in steel prices from the beginning of the year, that is clearly having an impact on our business. And also what is more of a positive thing is that we continue to invest significantly in our capability to sell, develop and deliver digital services and solutions. So overall that's the outlook and in summary, good start to the year, very good performance, following very strong performance in 2020, consider that into Q1, very consistent I would say and of course we're very focused on offsetting the cost increases that we see with productivity, differentiated offering and so forth, all the good things that we've done for many years and I see that we are in a very good position, competition wise to benefit from a market recovery and of course we're very focused on capturing opportunities from a growing market. So overall to this start, I think we can have a good continuation of the year, with that, sorry with that, we are now ready for questions.

Natalia Valtasaari: Yes and we can go straight to the lines for questions so operator, please.

Operator: Ladies and gentlemen, if you would like to ask a question on today's call, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll now take our first question from Andre Kukhnin of credit Swiss, please go ahead.

Andre Kukhnin: Yes. Good afternoon. Thank you very much for taking my questions. I'll just go one at a time and maybe begin with the obvious one on raw materials. Could you firstly, help us understand the step up from the 50 to 100? It seems to be slightly disproportionate versus spot prices move that we've seen since Europe both at Q4 and secondly, is this triggering any additional actions, from your side to compensate for it? And are there any signs in the industry of maybe looking to even price that up to customers, given that we've had a period of, now I guess maybe a couple of years of stable pricing?

Henrik Ehrnrooth: Very sorry [inaudible] I'll start and if I look at what's driving the development from this 50 that we talked about the up to a hundred now, so it's main drivers for that is steel in different formats, as well as copper and if we look at, it depends a bit market by market, but the prices have been coming up 15 to 20%, even up to 25, 30%, in some markets since the beginning of the year. So in that sense, that's really the key driver. Logistics costs, are part of that as well and there, we have seen thirst for quarter logistics costs have been at quite a high level, coming down somewhat, but still continuing to be on a higher than normal level. And if you look at pricing as you know, Andre, we don't talk about how we price going forward. I think it's clear that everyone would like to compensate this with pricing, but we have to see how it goes. I think, what our key action is of course, always when this is, as we have done year over year, continuously worked on an offering to make sure that it's more and more competitive that we continue to do, productivity has said that's developing in a good way and of course, continuing to do that and pricing. So all of the things are of course, in the toolbox and we continue to use them. Of course the challenge is now a little bit higher than we had expected it to be beginning of the year. Then you put a little bit more effort into it. So, that's what I would say about it.

Ilkka Hara: If you look at our guidance as well, we are expecting that there's a good chance of us being able to fight some of these headwinds to, to have, improved profitability for the year. So that's one way to think about it as well.

Andre Kukhnin: Thank you. That's very clear and then just a couple of questions on China and I wrap up. One is on modernization. Could you just update us on how you position there and how big has this segment become for you as part of your China business? And the second question on China is on the potential regulatory change. There's been a trial of replacing physical visits with monitoring in some cities that has been going on now for I think nearly a year. Is there an update from that and is there a sort of an update to your thinking on how soon we may see that regulatory change coming through in that country?

Henrik Ehrnrooth: So modernization has been growing at a very good rate. So I feel that we have a good position in China, but it's still quite a small percentage of our overall sales but its growing and we see a big potential there. I feel a little bit [inaudible] to when we started to grow our new equipment business, starting from low level but very strong compounding and then by shortly it becomes a large business. So overall we, I think we have a good position in that and we're focused on growing that business. There are a lot of trials going on in China on maintenance to go to condition-based maintenance and be able to replace some of the visits, through connective solutions. That has not yet driven changes in regulation. Those trials are expanded but there's no really big update yet. My understanding is that the experiences overall are positive. So I think it's going in the right direction, but nothing significant yet.

Andre Kukhnin: Got it. Thank you very much to both of you.

Henrik Ehrnrooth: Thank you, yeah.

Operator: Ladies and gentlemen, if you find that your question has been answered, you may remove yourself from the queue by pressing star two and as a reminder to get in the queue, it is star one. We'll now take our next question from Lucie Carrier of Morgan Stanley. Please go ahead.

Lucie Carrier: Good afternoon, gentlemen and thanks for taking my question. I wanted to come back on the raw material situation and also what you mentioned around the margin in the order received. First of all, I was hoping to understand a little bit how you expect that raw material impacts your phase, because it seems that in the first quarter you almost had nothing out of the 100. So I just wanted you to double-check that for the rest of the year and then Ilkka you were mentioning that, obviously you were benefiting from better pricing in order received that you got last year. How long until those orders or executed and as a result, how long before we are seeing now the slightly lower margin order, being executed. So that was my first question on the profitability dynamics.

Ilkka Hara: Thanks Lucie and if I start, I'll try to kind of a piecemeal the answer to that question. So first looking at the first quarter and the development from a raw material perspective, we actually were able to see a better than expected performance there. So we were able to push forward some of the increases, better than we expected and yes, there was some impact from increased material prices and logistics cost in first quarter but definitely, we expect that to be more about headwind in the coming quarters. So that's from a timing perspective and we have a pretty good visibility for raw materials covering the next few quarters. Always when it's smaller [inaudible], we tend to have a bit less locked in as the result but then for the, I would say the fourth quarter, there's still some contracts and also there's the deliveries on the product side. That's really influenced the outcome for the year. Then, your second question, remind me now what was it? Kind of what is –?

Lucie Carrier: Yes it was around the margin in orders.

Ilkka Hara: Yeah, exactly. Sorry, so lead time depends a bit market by market, but if you think about China being a largest new equipment market there, we do have a lead time of say nine months on average right now for the delivery. So orders that we deliver this year, some of them already have been received in the first quarter, so we start to see the impact from the decrease in margin of orders received that we've seen in the first quarter, the visible end result sometime end of this year or early next year depending on market by market. It’s a good thing, of course, so there's still time to take action and of course, we’re working on it; productivity and how are we going to offset some of that.

Lucie Carrier: Understood. And just, maybe to come back a little bit on China. You’re now guiding for a market to be steady or from what I understand the first quarter was quite strong. So is it an indication that you kind of expect the rest of the year to be, let's say around zero possibly slightly negative to kind of come to your slight increase? Are you seeing indication for that or it's just more being conservative from your side?

Ilkka Hara: I would say, as I mentioned already that we actually see the markets in China for the rest of the year to be very solid. We have to remember that in Q2, particularly Q3 and Q4, we saw a very sharp recovery plus we have higher, much higher comparison points, Q1 was of course a low comparison point last year, but overall we think the markets will remain solid and robust, then let's see then end of the year what the growth was, but the message here is that we continue to see good markets.

Lucie Hara: Thank you. And lastly, if I may, a question on the Americas, I see that in the quarter your order received in modernization or up quite a lot, maintenance for some reason is a bit weaker. I know we can change from one quarter to the other, but generally speaking in the Americas, I know you are a bit more skewed towards commercial. Can you comment in terms of the market environment you are seeing, not specifically on the quarter, but the discussion you have with your customer, are they ready to kind of act and resume new construction quite quickly or modernization quite quickly, or are you seeing that there's still quite a lot of uncertainty on the commercial side?

Ilkka Hara: I would say that when we, particularly we look at North America, we clearly are seeing, more optimism there, more activity. So things that were put on hold last year, back on the drawing board and people talking about them. So really more activity, because I think most developers, building owners, tenants and others are seeing a take. We will be back in offices. Offices will be critical to companies' competitiveness and how they develop and how they develop their people and how they attract best employees. Then you need to have an office that actually is attractive and therefore are investing accordingly. So, I think it will be interesting to see if we have a similar trend to what we saw back in 2010, 2011 in the United States where actually modernization markets, I still remember it very well that modernization market recovered much faster than new equipment market, because when building owners say look "Hey, I need to be now focused on upturn and attract new tenants." Then if you want to attract new tenants, you need to have an office that is fit for purpose and then you need to modernize it, all these aspects, so usually elevators are then part of it and that is therefore shorter lead time and that comes quicker and I think we're starting to see some of that. Overall, we just, we had a good quarter in modernization in North America. Let's always remember that one quarter is a short period of time overall and there can be a lot of fluctuation for quarter to quarter but overall, I think there's more optimism in the markets. From a modernization perspective, Americas, we saw growth in both, volume as well as major projects so that's possibly a good sign for the future.

Lucie Carrier: Thank you very much to the both of you.

Ilkka Hara: Thank you.

Operator: Thank you. We'll now take our next question from [inaudible] of Citi. Please go ahead.

Speaker: Thank you hi Henrik and Ilkka [inaudible] of Citi. First I'm trying the costs, sorry to labor the point, but if I think about the cost backdrop versus the last inflation cycle, it's different in the sense that in the US, it's now also a significant inflation particularly on steam this time around, this is not only a China thing inflation. We often talk about your China business when we discuss price costs, but I'm also keen to understand what you see on the US side, Henrik as well, and what you do with the prices in the US, not only in China. So we'll start here.

Henrik Ehrnrooth: Well, I would say that of course, we see it across the world. As you know, in the US, material cost is a smaller proportion of the overall price of an elevator or escalator. Labor cost and installation costs there are higher than other parts of the world. So it has an impact, but proportionately lower impact. I would say the difference we have now compared to previously so then, when that happened, markets overall came down, now we see we’re going into what looks like a recovering market. So I think that is also slightly different than what we saw last time around.

Ilkka Hara: And I would add also from a pricing perspective that at least in the first quarter pricing was much more stable than last time, we had the cost coming up and prices coming down and that's not what we saw in the first quarter.

Speaker: Yeah now that data makes perfect sense. And yeah, no I agree, the raw material content is obviously bigger in China. The second one I had was on modernization and I get the call meant for EMEA is linked to the residential projects being pushed to so directly into COVID, but I'm interested to hear if you've seen any improvement Henrik on the commercial side when you think about quotations? We hope today of others with exposure to non-res talking about improved commercial activity in Europe.

Henrik Ehrnrooth: We are starting to see more optimism there. I would say the reason we may highlight the residential is that that's such a big part of the modernization market in Europe and there it's clear when you have, during the pandemic and people have been at home much more so all types of building renovations have, larger ones have probably been postponed and, obviously the associations haven't met to be able to make decisions and there are many reasons for postponements there. In many markets you have had just slightly better development on commercial side already until now, but you're also seeing more optimism there.

Speaker: Very good. My very final one is on the raised growth guide at the lower end. Your China backlog is quickest to convert out of all regions, am I right to assume that a better China was the sole reason for raised outlook, for growth at the lower end of the range or is there anything else that, that you see that I might've missed?

Henrik Ehrnrooth: I would say actually if I look at our sales and look at our results, we actually had a Good performance across the board and then of course at 9.1% growth in Q1 overall, I wouldn't say there's one specific reason. Of course, China was an important reason, but not the only one.

Speaker: Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Thank you, we’ll now take our next question from [inaudible], please. Go ahead.

Speaker: Yeah I wanted to ask about, the growth outlook, in China across the different tiers if I may, I think you may find that the overall look is probably better in tiering, high tier cities versus lower tier cities. So I wanted to get your color about the potential growth prospects from that particular angle if I may, thank you.

Henrik Ehrnrooth: So the growth is really concentrated in, I would say three main, mega city cluster hubs. So, Beijing, the [inaudible] Bay area, I would say if you look at around Shanghai and the great Bay area, all the satellite cities around there, so not necessarily the biggest cities themselves, but the satellites around them, public transport to them and then you have also some other slightly smaller mega hubs. It's around those where we see most of the growth and that's where you have the best job opportunities, opportunities for health and education, and all of that. So that's of course growing people but they are, of course, trying not to have all of the people in the biggest cities, but in the satellites around them is what's happening right now.

Speaker: Thank you. And could you comment a little bit, maybe on – you elaborated already, but I want you to comment on the different pricing outlook, where do you find the most competition as we speak within China? And probably if you can extend the comment to overall aftermarket maybe in EMEA in Europe, what do you see there in terms of competing trends for China, I guess equipment and obviously EMEA aftermarket, thank you.

Henrik Ehrnrooth: So pricing in China has actually been pretty stable. Okay. You have had some higher input costs now. Usually you have more challenging situations in markets that are more challenged and of course you have some Southeast Asian, some Southern European markets but it really varies market to market. I would say on the maintenance side, actually quite a stable situation overall.

Speaker: Thank you.

Henrik Ehrnrooth: Thanks.

Operator: We'll now take our next question from Mattie Singh of bank of America. Please go ahead.

Mattie Singh: Yes, hi thanks for taking my questions. My first question is, on your existing contracts, whether there are any provisions to pass on raw material price increases at all, or is there any specific, let's say trigger level beyond that you can pass on or there is no scope whatsoever to pass on in the existing contracts.

Henrik Ehrnrooth: Existing contracts are at a fixed price is almost all of them. So, if input costs go up, that's something for us to manage and vice versa and I think that's normal in most industries. We have a, usually [inaudible] less than a year of order books and I think that's something that's manageable.

Ilkka Hara: That's particularly then a comment on new equipment and modernization, we may understand the prices we have escalation clauses for those, depending on the market that is different but they do follow inflation overtime.

Henrik Ehrnrooth: Yeah good addition.

Mattie Singh: Okay. And, in terms of your contracts with your suppliers, typically, I understand they’re like three to nine months long contracts typically, correct me if I'm wrong there. How quickly, if I were to look at your existing mix, what percentage, of those supplier contracts have already been renegotiated and how much further still yet to be negotiated?

Henrik Ehrnrooth: I would say that we have to remember, it's not that you negotiate some part of the year and then it sticks. This is an ongoing rolling process and then we work with our suppliers to lock prices for raw materials and so forth. So I don't think I could -- this is a constantly rolling process. I don't think I have any other answer to that question.

Ilkka Hara: And also I wanted to clarify something. So if we talk about raw material impact and we try to provide an estimate of the impact of the raw material prices that are changing in the markets, and based on that, have negotiation with our suppliers, post negotiations, look at a bit of the past and also then where we are, so both going up and down. There's a lag in the impact in our prices and we actually left barely little raw materials. So it's more the components that have a name that their prices, are impacted by raw material prices, but it’s also one to one link, therefore also the comment we make tries to estimate the impact that we see and depending on our capability to negotiate and also do rate designs and if the impact can be different and normally we've been actually quite good at seeing, improvements to the Raw material, price change.

Mattie Singh: Thank you and one question around outlook for commercial market, non-residential side. It looks like and feels like you are seeing better trends there as well. So is that something which is a global trend you're seeing now or it is still limited to markets such as the US for now?

Henrik Ehrnrooth: Well US is the one we highlighted because it's such an important segment. If you remember that again, that Europe and much of Asia by far, the biggest segment is residential, which should actually be more robust throughout the crisis, but we see the same trend in many of the markets where confidence is improving and we can start to see coming out of this crisis, then that's usually a theme but of course in North America, it's a bigger impact than it is in the rest of the world.

Mattie Singh: And my final point, I know it's a bit more subjective. Beyond the raw material prices, what would be your biggest concerns in the next couple of years or this year as well if you want to?

Henrik Ehrnrooth: Well, I would say of course. We constantly have a lot of things we look at and see that we have to continue to improve, but I don't think that that's any different in the past that, of course we look at market development very closely as we do all the time, but that's what we've done year over year, constantly look forward, constant improvements, at KONE, that's how we operate and how do we find the changes we see in the market as opportunities. So how do we capture them? And that's what we continue to be focused on. Of course always there are uncertainties and so forth, but then we deal with them.

Mattie Singh: Okay thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Joel Spungin of Berenberg, please go ahead.

Joel Spungin: Hi, good afternoon. I just had a couple, actually. I was just wondering if I could start by asking, with regards to your orders received, just to help me understand a little bit more and obviously 1.3% in the quarter, if I look at your chart on slide 13, obviously you only read in one area in terms of new equipment, which was Americas. I mean, given the relative size of Americas versus China, was there something unusual in the comp in Americas that explains why it was so weak in Q1 or is that not what's sort of underpinning this?

Ilkka Hara: Well maybe I start with sorry, education. So when I talk about orders received, where you started with your question of 1.3% growth, we calculate into that number, orders in new equipment as well as in modernization and the repair orders for our maintenance business as well. So it's a totality and out of that, then new equipment is a large part of that, but it's not only the -- it's all of those three. And then in the new equipment in Americas, so I think the performance there’s quite well and obviously last year, the comparison point is quite high as it was a quarter largely not impacted by COVID 19 yet. With North American market, monetary value is clearly more meaningful that it's in units. So it does have an impact.

Joel Spungin: Okay. Thanks for the clarification. And then maybe just moving on, I was also wondering if I could ask, in terms of your comments around, obviously you've talked a lot about the margin on new orders received. Could you maybe, I think in the statement you talk about it, honestly year on year basis, but sequentially, has there been any significant change compared to Q4? I'm just trying to sort of get a sense of what the trend was and I mean, the reason I'm asking obviously is Otis, commented on Monday that they'd seen some easing in pricing Q1 versus Q4 2020. So, just trying to reconcile whether that's also what you've seen or not.

Ilkka Hara: Oh, my comment on margin was on purpose, year on year because, if you look at quarter on quarter, then seasonality plays a role there, but particularly in pricing environment, so we did say that pricing was overall rather stable year on year and I would say that quarter on quarter, that's also true. The clear difference driving the commentary on the marginal borders received is really the raw materials going up during the first quarter.

Joel Spungin: Okay. That's very helpful. Thank you. Now I may just have one quick, final one. I'm just wondering if you could just remind us, during 2020, did you offer any rebates to maintenance customers and if so, have those all now been fully reversed out?

Ilkka Hara: I would say it was never meaningful. It was in some situations last year that there were suspension of payments or rebates and for rebates; I would say that's at the very low level today. There are some places that still, some resorts and hotels but we're talking about the -- it's not a meaningful number, it doesn't really impact the numbers overall anymore.

Joel Spungin: Okay, great. Thank you very much.

Operator: Thank you. No further questions at this time. I'd like to turn the conference back over to the speakers for any additional or closing remarks.

Henrik Ehrnrooth: Thank you all for, participating here today. I think we had some good questions and, Natalia for closing.

Natalia Valtasaari: Yes. Thanks on my behalf as well as to Henrik and Ilkka and to everyone who joined online. Good participation, great questions. If you do have any follow-ups, please don't hesitate to reach out. We're here for you and, yeah I'm wishing you a great rest of the week.

Henrik Ehrnrooth: Thank you everyone.

Ilkka Hara: Thank you.