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Otis Worldwide Corp. (OTIS)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' Third Quarter 2026 Earnings Conference Call. This call is being carried live on the Internet and recorded for replay. Presentation materials are available for download from Otis' website at www.otis.com. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I'll now turn the call over to Sofya Tsinis, Senior Vice President, Investor Relations.

Sofya Tsinis
Senior Vice President, Investor Relations, Otis Worldwide Corp.

Thank you, Sarah. Welcome to Otis' third quarter 2026 earnings conference call. On the call with me today are Judy Marks, Chair, CEO and President; and Cristina Méndez, Executive Vice President and CFO.

Please note, except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring and significant non-recurring items. A reconciliation of these measures can be found in the appendix of the webcast.

We also remind listeners that the presentation contains forward-looking statements, which are subject to risks and uncertainties. Otis' SEC filings, including our forms 10-K and 10-Q, provide details on important factors that could cause actual results to differ materially.

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Now, I'd like to turn the call over to Judy.

Judith F. Marks

Chair, President & Chief Executive Officer, Otis Worldwide Corp.

Thank you, Sofya, and we are so pleased to have you joining our Otis team. Good morning, afternoon and evening, everyone. Thank you for joining us. We hope that everyone listening is safe and well.

Starting on slide 3, we delivered a solid third quarter with continued progress across the business, which reflects the steps we're taking to build a stronger foundation for sustained growth. When we look – when we take a look at the business, we see healthy demand and strong momentum in Service. We also view modernization as one of the most attractive opportunities across our business, supported by our large and aging installed base.

For the quarter, organic sales increased 6%, led by 7% growth in Service and 3% growth in New Equipment. Service operating margins grew 100 basis points sequentially to 24.2%. Maintenance and repair had organic sales growth of 4%, with repair sales up 9% in the quarter. This builds on the solid trend we've seen over recent quarters. Modernization organic sales were up 20% in the quarter, with orders increasing 10% and backlog growing 20% at constant currency. These results reinforce our confidence that the investments we have been making are fueling continued Service momentum and our Service flywheel.

In New Equipment, organic sales increased for the first time since 2023 to 3%. The Americas New Equipment organic sales increased 13%, supported by a strong backlog conversion. EMEA and Asia Pacific also delivered strong organic growth, with both regions improving sequentially. Although China remained weak with New Equipment sales decreasing more than 20%, the rate of decline for orders in backlog moderated sequentially to a low teens and a mid-teens rate, respectively. Overall, New Equipment orders grew 1% and 5%, excluding China, as demand across the rest of the world remains strong, particularly in the Americas, where orders grew for the ninth consecutive quarter. We remain disciplined in project management and pricing, with a continued focus on maintaining backlog quality.

From a cash perspective, adjusted free cash flow reached approximately $272 million in the quarter and $834 million through the first nine months of the year, an increase of 9% compared with the prior year-to-date period. We continue to execute the Service investments we announced at the beginning of the year, focused on growing field and pricing capabilities and improving service quality. We are encouraged by the results we are seeing, with strong Service growth and reaching target levels on service quality, providing early evidence these investments are positioning Otis for future Service success.

Beyond our solid financial performance, we continue to advance and deploy our AI-enabled and digital initiatives, reflecting our ongoing commitment to innovation as a tool to improve our business and performance. In Service, we're applying technology to help our teams better serve our customers and improve operational execution. For example, our internal data intelligence tool helps identify, repair and modernization opportunities, enabling more proactive customer conversations and helping customers address the needs of their equipment. In pricing, our AI-enabled micro-pricing capabilities support more consistent and disciplined pricing decisions.

We're also progressing the rollout of field service tools, which are helping us to optimize scheduling, dispatch and mechanic routes to reduce travel time, improve productivity and drive greater consistency in service delivery. Collectively, these capabilities will enable us to operate more efficiently, deliver a more consistent experience for our customers and support continued Service growth.

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Turning to our orders performance on slide 4. We see – we continued to see healthy orders. Combined New Equipment and modernization orders increased 4%, driven by Americas and EMEA, while backlog grew 7%. And, excluding China, backlog was up 10% at constant currency. New Equipment orders increased 1%, up 5%, excluding China. We saw strength in the Americas, where orders grew low teens, with North America delivering order growth for the ninth straight quarter. EMEA grew low-single digits, led by another strong quarter in Europe, where orders increased low teens, partially offset by the Middle East. Asia Pacific also grew low-single digits, while China orders declined low teens, showing a sequential improvement. New Equipment backlog increased 4% at constant currency and 8%, excluding China.

Modernization continued to be the growth driver in this quarter, with orders increasing 10%. Growth was led by China, where modernization orders increased more than 20%. This continues to reinforce our strategic pivot to Service, particularly modernization in China. EMEA delivered mid-teens growth and Americas grew approximately 10%. Asia Pacific declined mid-single digits due to project timing. Customer demand for modernization solutions remains healthy. We ended the quarter with modernization backlog up 20% at constant currency. This strong backlog provides a good runway for the future and reinforces our confidence in the multiyear modernization opportunity ahead.

Our teams around the world continue to improve our execution and delivery, securing customer wins that demonstrate the breadth of our capabilities and the value we're bringing across the entire asset life cycle. As we install, modernize and maintain equipment, we deepen relationships with customers, expand our Service footprint and create opportunities for long term recurring revenue growth. For example, in the Americas, we are pleased to expand our long-standing partnership with Rutgers University through our commitment to two significant projects. We will install six Gen3 elevators and three SkyRise elevators, including our Compass dispatching and EMS Panorama technology at the HELIX, a mixed use healthcare, biotech and pharma innovation hub in New Brunswick that combines specialized laboratory, commercial and residential space.

We'll also modernize six elevators at the Rutgers Stanley Bergen building in Newark, including new machines, controllers and doors. Both of these projects use our Otis ONE IoT technology and build on our existing relationship with Rutgers, where we maintain and service more than 420 elevators and escalators across the university's three-campus network.

In China, where we continue to lead in high value infrastructure, we secured both New Equipment and modernization contracts with the Wuhan Metro system. For New Equipment, we'll provide 113 elevators and escalators for Line 11, including 81 of our public escalators, 30 Gen3 elevators and 2 freight elevators. For the modernization project, the largest elevator modernization contract in the Wuhan Metro system's history, we'll modernize 147 elevators across 72 stations using our Gen3 MOD technology. Both orders include our Otis ONE IoT service platform. These contracts build on our successful escalator modernization work completed for the Wuhan Metro system in 2024 and highlight the growing opportunity to upgrade critical transportation infrastructure, while improving safety, reliability and the passenger experience.

In the United Kingdom, Otis was selected for the redevelopment of 99 City Road in London. Otis will provide 27 units, including SkyRise, Gen3 Peak and Gen3 Robusta systems, as well as Compass 360 destination dispatching, EMS Panorama 2.0 and the Otis ONE connected platform. This project demonstrates our ability to deliver integrated mobility solutions for some of the world's most demanding commercial environments.

And, finally, in Southeast Asia, we're proud to support the modernization of UOB Plaza, a prominent Grade A office tower in Jakarta's Central Business District. Otis will modernize the building's vertical transportation system with 12 SkyRise elevators, complemented by the Compass 360 destination-dispatch system, integrated with third-

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party facial recognition technology at the turnstiles and EMS Panorama 2.0 monitoring solutions. The win reflects our strong customer relationships, technical expertise and collaborative approach with Otis as a trusted partner to enhance building performance, passenger experience and long-term reliability in one of Jakarta's landmark commercial buildings.

Now, turning to our third quarter results on slide 5. Otis delivered net sales of $3.9 billion, with organic sales up 6%. The quarter also marked our strongest organic sales growth performance in 13 quarters, driven by continued strength in Service and growth in New Equipment. Adjusted operating profit, excluding a $3 million foreign exchange headwind, decreased $3 million in the quarter. Adjusted operating margin contracted by 110 basis points to 16%. Adjusted EPS was flat year-over-year as the benefits from a lower share count and minority interest were offset by a higher tax rate, higher interest and unfavorable foreign exchange rates.

I want to take a moment to mention that this quarter, Otis was honored to be named among TIME's World's Best Companies and, for the fifth consecutive year, recognized as one of Forbes World's Best Employers. These recognitions reflect the dedication of our amazing colleagues around the world, our steadfast commitment to our customers and our continued focus on delivering sustainable value for customers, colleagues, shareholders and the communities we serve.

With that, I'll turn it over to Christina to walk through our results in more detail.

Cristina Méndez

Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

Thank you, Judy. Starting with Service on the slide 6. Service organic sales increased 7% with broad-based growth across all lines of business, reflecting the continued momentum we saw in the first half of the year and the strength of our service-driven business model. Maintenance and repair organic sales grew 4%. Maintenance increased 2%, driven by 3% portfolio growth and 3% pricing, partially offset by mix and churn.

Our repair business continued to perform well, delivering high-single digit organic growth. This reflects healthy customer demand across our installed base and traction from our proactive approach to repair, which increases uptime and customer satisfaction. We are pleased to see the flow-through of our micro-pricing strategy in Repair, as anticipated, given the backlog entering the quarter.

Modernization remained a significant growth engine. Modernization sales increased approximately 20%, supported by a strong execution and the conversion of a robust backlog entering the quarter. Service operating profit of $633 million increased $20 million at constant currency, which reinforces our strategy of growing profit dollars. Higher volumes and favorable pricing more than offset higher labor costs, net of one-time benefits, continued investments in Service quality, productivity and growth initiatives and an unfavorable business mix.

Service operating margin was 24.2%, down 130 basis points year-over-year, but improved 100 basis points sequentially. The sequential improvement was driven by repair pricing, operating leverage from modernization and repair volumes and lower SG&A, including one-time benefits, consistent with our expectations.

Turning now to New Equipment on slide 7. New Equipment organic sales increased 3% in the quarter. Performance was led by the Americas, where sales increased 13%, reflecting continued strength across the region. EMEA grew 6%, driven primarily by Southern Europe, with both Central and Western Europe also contributing to growth. Asia Pacific increased at a high-single digit rate, supported by a strong performance in India, partially offset by weakness in Korea and Australasia. In China, New Equipment sales declined greater than 20% in the quarter. While market conditions remain challenging in China, the moderation in New Equipment

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orders declined in this market, together with healthy demand outside of China, provides a more constructive backdrop as we look into next year.

New Equipment operating profit of $42 million declined $22 million at constant currency. Operating profit margin was 3.2%, down 150 basis points from the prior year, primarily driven by unfavorable price and mix, partially offset by higher volume and productivity benefits. New Equipment profit is now contributing approximately 6% of segment operating profit.

While market conditions remain mixed, our New Equipment business continues to show signs of improvement. We are encouraged by positive sales growth, a strong momentum in the Americas and a healthy backlog outside of China, which provides increased visibility as we continue to execute on our strategy.

I will now turn it back to Judy to discuss our 2026 outlook.

Judith F. Marks

Chair, President & Chief Executive Officer, Otis Worldwide Corp.

Thank you, Christina. Turning to slide 8. Our sales outlook and market expectations for this year remain unchanged. We expect the global New Equipment market to stabilize with growth across all regions except China, where the market is expected to remain under pressure, but with declines moderating. Our modernization outlook remains robust as we expect the market to continue to expand at a double-digit rate on a dollar basis, with growth expected across all regions, supported by a growing and aging installed base and sustained customer demand for partial upgrades and full replacements.

We continue to expect net sales of $15.1 billion to $15.3 billion, with low- to mid-single digit organic sales growth. Organic Service sales are expected to grow mid- to high-single digits with New Equipment down low-single digits to flat. Our adjusted operating profit outlook remains unchanged in the range of down $30 million to flat on an actual currency basis and down $45 million to down $15 million at constant currency. This year, we have made deliberate strategic investments in Service to strengthen the business and drive the Service flywheel going forward. We continue to expect New Equipment profit to be a headwind year-over-year.

We're executing on our Service initiatives. And as we close the year, we remain focused on and committed to strengthening service quality and customer centricity, improving productivity and continuing to rollout our micro-pricing strategy. Our adjusted free cash flow outlook is around $1.5 billion. We continue to expect adjusted EPS in the range of $4.01 to $4.05.

As we approach the last quarter of the year, we're pleased to see evidence that our Service growth strategy and engine is working. We remain encouraged by the market demand, which is expected to grow in all regions across the globe and in repair and modernization. We're proactively capturing this demand with the specialization of our sales force, deployment and adoption of commercial AI-enabled tools and additional standard package offerings in repair and modernization. In addition, we've put in place our new micro-pricing strategy, which is expected to continue to provide positive results. Importantly, our field investments are driving stronger service quality, and we're pleased to see a ramp-up in our field workforce engine that will support top-line growth into the future.

With that, I'll ask Sarah to please open the line for questions. Thank you.

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. Please limit yourself to one question and one follow-up. [Operator Instructions] Please stand by while we compile the Q&A roster. Your first question comes from the line of Varun Govindaraj with Bernstein. Your line is open. Please go ahead.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Good morning, Judy, Christina and Sofya. Congrats on the solid quarter. Quick question for me. So, largely in line in 3Q on Service margins, we've talked about a sequential ramp going into 4Q. Is that still relatively unchanged?

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Hi, Varun. Yes, you are right. Relatively unchanged. We are reiterating the guide, as we have seen Q3 come in in line with expectations. We have just changed and recalibrated the different components in operating profit. You have seen in Q3 a much stronger modernization sales that we are pleased to see 20% growth in the quarter and that, of course, is a headwind on growth. Q4 is expected at the midpoint of the guide and assuming that productivity and churn levels remain at current level, to be about the same level as Q3.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Got it. Understood. Very helpful. And then, just a follow-up on modernizations in China, encouraging to see that that's driving growth there. Is there a difference in modernization margins in China versus the rest of the world, because there is a big difference in New Equipment margins in China versus the rest of the world.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Varun, thanks for asking. It's Judy. Yes. The modernization markets in China tend to look like the New Equipment margins in China. So, they follow that same path and our New Equipment margins in China have been very positive over the years and remain that way. We're really pleased with the modernization growth. And when you think about it's now the third year of the bond stimulus, which will – it's in the 15th Five-Year Plan. It's going to continue into 2027. And we believe beyond based on discussions we've had with the leadership in China, in Beijing, this is really a matter of making sure that there's high quality living available in so many of the older buildings for so many of the citizens of China.

So, in the quarter, mod in China was very strong and in the quarter, the orders were up over 20%. Revenue was up even more than that and our backlog is up even more than that in mod. So, we're going into the fourth quarter, strong in mod in China. We anticipate that continuing and the only potential policy changes we see next year to the bond stimulus would be the addition of non-residential, because right now, it's very focused on residential at the different tier segments. So, we're very positive there and Sally and the team have also put in a complementary strategy, where we're growing mod as well in non-bond, in the non-stimulus, so that if it were or when it is to end, we'll still have a strong mod business in China.

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Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Perfect. Thanks so much for the color. I'll pass it on.

Operator: Your next question comes from the line of Nigel Coe with Wolfe Research. Your line is open. Please go ahead.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. Thanks for the question. So, just Cristina, just wanted – just to come back to the Service expectations for 4Q. I think, is it Service margin you expect to be relatively stable Q-over-Q, so higher revenues Q-over-Q but stable margin. I just to make sure that is correct. And then, just taking a step back and look at the 100 basis points of sequential margin expansion in Services, can you maybe just help bridge us the, kind of, how much is driven by productivity versus pricing? I think you called out a one-time benefit twice in the prepared remarks, Cristina. I just want to make sure we can get that as well.

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Okay. Well, thank you for the question, Nigel. So, yes, you're right. So, I said that Q4 Service ROS to be broadly in line with Q3, assuming that current productivity and churn levels remain stable. And that means that we still expect a significant step-up of Service ROS in the second half of the year compared to the first half, as you have already seen in Q3. And, as a reminder, in Q4, we faced a tougher compare, because last year, we had a $15 million sell-off asset contribution to profit. That is a 60 basis point headwind in Service ROS. But that was already considered in the outlook.

Now, to your question about the Q4, so we have seen, in Q3, very aligned with expectations in terms of the ramp-up of volumes. We have seen particularly modernization very strong at 20%. Additionally, price is flowing through exactly as expected. We had it in the backlog entering the quarter and SG&A has also come as expected.

The one-timer refers to an adjustment on the incentives, very in line with performance. We have a pay for performance culture and we had assumed according to our policies an adjustment in Q3 and, of course, the final true-up will be in Q4 as all of these was already reflected in the outlook. Maybe the only swing factors we have seen in the quarter have been on the one side churn a little bit of a headwind as we have seen in the previous quarters, and the second one on ROS, mix of sales because of mod being stronger.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. That's very helpful. Thanks, Cristina. And then, maybe, Judy, there's press reports that TKE and KONE may have to sell the bulk of their European business. I'm just curious, are there any comments you can make in terms of potential Otis interest or scope to participate in those asset sales, if there are any?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Thanks, Nigel. Listen, we have a healthy and a robust bolt-on M&A plan that we've been active on and we were very pleased to add we maintained earlier this year. We're always looking to add, obviously, sort of assets and colleagues to our Service portfolio where it makes sense for us, where it's accretive and where we can integrate

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well. What we're not looking for is distraction and what we're not looking for is the need for us to have to justify kind of market concentrations in certain parts of Europe.

So, if we're to be presented with a package that might come forward, obviously we'll look at it. But that's about all I can say as of now. We're staying focused, and I think that focus is really the differentiator you saw this quarter. We're being very opportunistic, while others may be distracted. And I think that's what you're seeing in our orders. That's what you're seeing in our growing backlog and that's what you're going to see continue into the fourth quarter and next year.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Thanks, Judy.

Operator: Your next question comes from the line of Nick Housden with RBC Capital Markets. Your line is open. Please go ahead.

Nick Housden
Analyst, RBC Europe Ltd. (Broker)

Q

Yes. Hi, everyone. So, my first question is on modernization. So, the mod orders were up 10% in the quarter and organic sales were up 20% and then the backlog was also up 20%. So, Cristina, I'm just wondering if you could maybe kind of square some of those figures, how you can have such a strong growth in the backlog when you're also growing the sales so strongly? And then, I guess, the kind of related question is, how should we think about that 20% sales figure going forward? Thanks.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Nick, let me start and then I'll have Cristina add some color. I mean, we are just really excited about the modernization opportunity, but equally excited at how all four of our regions are delivering on that. Again, we've we put in place a focus on having standard packages. We have a go-to-market strategy and our installation teams have been delivering which we're very pleased with the mod margins as they've continued to grow.

As you said, orders up 10% in the third quarter. We were up 27% mod orders last year this quarter. So, that's really healthy growth on growth, but we're up 43% last year in the fourth quarter. So, I want to temper expectations a little for fourth quarter orders on mod. Our backlog was up more than 20% as we came into this quarter. So, it's actually down from what used to be 24%. Now, it's 20%, the backlog, but we're still growing strongly.

And let me just give you a little color on the regions, if that's helpful, because we're just thrilled with how everyone's performing. Joe and the team, their backlog is up mid-teens in the Americas. Nico and the team is up high-single digits. Our Europe team, their backlog is up, again, they had a very large order fourth quarter last year, but strong, strong mod orders performance in the mid-teens this quarter, mainly in Central Europe and Southern Europe. Their backlog is at a very – at the healthiest level of any of our regions. And, as I mentioned before, China is up double digits.

So, we're going to continue to grow here. As you know, it creates some mix headwind in profitability in our Service segment. But we do tell folks to continue to look at profit dollars and its profit dollars that are going to drive us

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more in the future than Service margins. We're going to grow Service margins, but not at the levels we did before. Cristina?

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. No. And adding color to that, Nick, I think you're reconciling from sales growth, orders growth and backlog, we are very pleased to see synchronously we continue growing orders and we are also accelerating the execution of the backlog. And as Judy pointed out, the backlog growth has been slowing down because of the acceleration of execution. We ended 2025 with a backlog growth of 30% and we are at 20% now. Why do we continue taking orders? So, the goal going forward is to execute on customer commitments on time, but we continue seeing a demand in the market to grow going forward.

Nick Housden
Analyst, RBC Europe Ltd. (Broker)

Q

Great. That's really helpful. Then, my follow-up question is on New Equipment organic growth and it's good to see Americas growth of 13%. And I guess, we have seen since probably around Q2 – H2, excuse me, of 2024 some really healthy Americas order intake. So, my understanding is that the lead times in that region are sort of 18 months to 2 years. So, if you just kind of extrapolate that. Then, it would kind of imply, I think, that we could continue seeing some pretty healthy Americas growth rates for at least the next year or so. At the same time, we've got China just continuing to decline in the mix. So, I guess, I'm just curious to hear your thoughts about whether we're sort of on the cusp of a step-change in the New Equipment growth and maybe what that could mean in terms of things like operating leverage, et cetera? Thanks.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Great. Great question, Nick. So, let me just hit China for a second, so I can spend time really making sure everyone understands where we are in North America. China, as of the third quarter, is now 17% of our New Equipment revenue. And similar to first quarter of this year, China Service is now 51% of China sales. So, it's back. Our strategy is working there, but North America is the showcase right now. Nine consecutive quarters, you are accurate with your about 18-month lead time. So, the New Equipment backlog is now 14% in North America, ninth straight quarter of New Equipment orders growth and it is showing up. That's what you're seeing in the sales. That's how we were able to inflect positive, now, for the first time since 2023 in New Equipment sales.

This is going to continue in terms of New Equipment sales. We expect it to be at least flat to positive. I wouldn't say it's going to be linear, because sometimes there's some major projects in it. But over time, over the next certainly fourth quarter or through 2027 and even further, North America New Equipment sales looks very promising and very positive. The backlog is there, our team's ready to perform and they're doing all of this while simultaneously their Service and their mod repair orders are up, their mod orders in North America – their mod backlog is up 14%. So – and that was after a double-digit mod sales quarter. So, the team in North America is doing a great job.

I will tell you what we're really seeing in the market, is while there are challenges in the residential market, and you see that whether it's ABI or Dodge, the segments that are up really are hospitality, data centers, as well as some of the hospitals – medical, I would say. And we're also seeing industrial up, which is very positive. And in a world where we just talk about – we talk about units and market size, it's important to note that not all units contribute the same, either top line or bottom line. That's why, we introduced our robust product line in April across the globe. But we've seen really good pick up here in North America with all the reshoring going on and

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industrialization going on, we're selling high value units there that now are in our orders that will become and in our backlog when you look at fabrication facilities, factories, data centers and that is overtaking some of the lower – more volume business, but at a lower – obviously, lower price point for what we call residential apartments, condominiums.

So, again, North America team is doing great. Joe and the team deserve a ton of credit. And we are going to continue to expect growth going forward, both on the intake side and on the conversion side for both New Equipment, mod, maintenance and repair.

Nick Housden
Analyst, RBC Europe Ltd. (Broker)

Q

That's really helpful. Thank you very much.

Operator: Your next question comes from the line of Alexander Virgo with Evercore ISI. Your line is open. Please go ahead.

Alexander Virgo
Analyst, Evercore ISI International Ltd.

Q

Yeah. Thanks very much. Good morning, Judy and Cristina. I appreciate you taking the call – question. I wondered if you could talk a little bit about how you are seeing the implementation and benefits, I guess, in the Service business. Talk – you mentioned micro pricing already having some impact, but I'd appreciate any kind of update you can give us on that, perhaps around some of the customer response and how are you getting on with hiring people? That sort of color and commentary would be really helpful.

And I don't know if you called it out, but any comment you can make on growth in the Service portfolio? Are we still running at that kind of 3%-ish level? That would be helpful. Thank you very much.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Alex, let me start. We are running at the 3% level for the third quarter for the Service portfolio. So, that's in a place we wanted. We're always focused, though, on trying to grow it more in the higher value regions of the Americas and EMEA. And that's where we're very focused on service quality. So, we'll continue to do that as we go.

In terms of where we are on our Service initiatives, we shared the service quality index with you that we were up 7 points based on the investments we made and we shared that last quarter. Those – that service quality has held. And we're very pleased with those results and we think that will continue to flow through over time. There is a lag between us seeing that service quality improve and retention rates, but what we are seeing is significant additional demand for repair orders.

Repair orders are up and we're being able to convert that repair. We were able to yield 9% in terms of sales this quarter. That's part of the maintenance and repair business and that's where micro pricing has been its most successful. And again, it's a highly focused segmentation to understand the value we're adding and what price we can get for that value.

So, it's not just price for price sake, again, it's the value the customer wants and how we can get that value and using data to help us do that and also helping our sales force be better prepared to defend that. So, all of that drives limited discounting, everything you would want that should and does drive improved pricing. It takes more

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time in maintenance, because our maintenance contracts ex-China are longer than one year and again, we will see that continue to flow through.

But, Cristina, anything you want to add?

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.
A

Yeah. No. As you said, on the pricing side, very pleased with the pricing in repair. Maintenance, we have the engine prepared to roll it out, but we are also balancing out price with churn and retention improvement. From a field performance perspective, Alex, so also pleased to see the ramp-up of resources. You see that in our execution in repair and modernization. So, the machine is working and we expect this to be sustained over time.

We usually report growth in mechanics by the end of the year and you will see the numbers in our full year call, and you will also see that the mix is changing and we are growing more in high value regions. That will also contribute to revenue growth and profit growth in those regions. And last but not least, productivity. We have seen it broadly stable in Q3 as anticipated and as we continue ramping up the execution machine, we'll work on productivity actions.

Alexander Virgo
Analyst, Evercore ISI International Ltd.
Q

That's very helpful. Thank you very much.

Operator: Your next question comes from the line of Steve Tusa with Wells Fargo. Your line is open. Please go ahead.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Hi. Good morning.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

Good morning, Steve. Welcome back. Welcome back.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Thanks. Thanks. Great. Great to be back on a busy day of earnings. Just digging a bit more into the Services (sic) [Service] (00:39:05), I think you had said mid-20s – mid-24s is kind of Service margins in the second half, which was a bit of a ramp into the fourth. You're now saying flat. Which of those items, I think, you kind of bridged us to first half to second half items on the margin and which of those are falling a bit short? And then, can you just quantify how much the one-time benefit was in third quarter?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

Yeah. Steve, we're not going to quantify that. In our process, every year, third quarter, we true up the incentives based on how we're performing and based on us restating our outlook in the second quarter. This is profit we generated this year that we're choosing to use this way to align pay for performance. So, we're not going to

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quantify that. But we do it every year. We did it third quarter last year similarly, but it just wasn't at the same level. So, we thought it was important to call out and to reverse next year with good performance. So, that's the motivation as it should be when you align incentives with performance.

In terms of the biggest change for Q4 is, it's a mix issue mainly. We're seeing far more modernization sales come through, which we want, again, profit dollars and it gives us the additional portfolio over time, especially for the modernization orders that are off portfolio. So, that's been the biggest – we had said we thought mod would come in mid-teens this quarter. It came in at 20% revenue and it's still looking strong for next quarter.

So, Cristina, any other?

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.
A

Yeah. No. On the rest of the levers in the bridge remain broadly in line. So, price, as I said before, is coming through, volume is coming through with a stronger mod. SG&A also coming through and we had already considering the outlook a one-timer of incentive release. You can see here, Steve, our SG&A evolution Q2 to Q3 and this is of course reflected there, also considering the restructuring we executed in June. And in terms of recalibration, is the mix of sales and a little bit of churn.

C. Stephen Tusa
Analyst, Wells Fargo Securities LLC
Q

Okay. That's super helpful. And just one other question. As we move into next year, is there potential for the China stimulus? They'll still have it, but it would be a lower amount or you're saying they'll have it and it'll be a higher amount and you're continuing to grow off of the rates or is that still a TBD?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

We don't know the exact amount, Steve, but it will – our belief is, it'll will continue at a minimum at the same amount. It has gone up incrementally, though, each year for the past three years since it was started. So, on mod, we view that as very positive. We've captured significant share there. Again, the team's doing great there. And again, it was part of our very much focused pivot to Service strategy in China, as I said in my prepared remarks.

On the New Equipment side, if you allow me, I'd like to be clear here, because we had originally started the year where we thought China was – you'll be down 10% in the first half, down less in the second half in terms of the markets segment. And it did not get – it improved in the third quarter. It was still down 10%, the market. The reason for that is something called the 828 Rulebook. It happened on August 28 when the Central Government basically, and I believe for all the right reasons, came out with guidance for high quality developments. It's going to be very good structurally for China over the medium and long term. But what it did to developers was said that they should favor selling and finished completing units right now versus pre-sales. And for any pre-sales they do for the first time in two decades, those down-payments have to go to escrow, so they can't be used to finance the next project, which, as you know, had been done for many years.

So, I think there is a healthy structural change happening in New Equipment. I think it'll take a little bit of time to flow through. But I think the high quality development that's going to come out of this over the medium term in China will stabilize to a much better New Equipment market and a better consistency.

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C. Stephen Tusa
Analyst, Wells Fargo Securities LLC

Q

Got it. It seems like we have a bit more work to do in analyzing the China market. It's pretty complex, but thanks a lot for all the color as usual.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

You bet. Thanks, Steve.

Operator: The next question comes from the line of Lewis Merrick with BNP Paribas. Your line is open. Please go ahead.

Lewis Merrick
Analyst, BNP Paribas SA (London Branch)

Q

Yeah. Good morning, Judy and Cristina. Thank you for taking my questions. Can you just give us a bit more color on the maintenance growth that translated to 2% net growth, given the 3% pricing and 3% portfolio growth? I know you said mix was a component of that. Can you just break down a bit more in terms of maybe by region?

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. So, this is – the question, Lewis, is 3% portfolio growth, 3% price and 4% the impact from churn and mix. Churn, as we said last quarter, has come a little bit worse than initially expected. We are very positive about the quality improvement as a result of our investments. We have seen them sustaining versus what we said in Q2 and we are confident that churn will follow. It's a matter of time or retention improvement will follow. The mix effect is also impacting. What Judy said before is that not every region contributes the same in terms of revenue per unit. So, as we see faster growth in APAC and – Asia and China versus EMEA and US, that also creates a mix effect.

Lewis Merrick
Analyst, BNP Paribas SA (London Branch)

Q

Okay. Thank you. And can we just talk about the investments you've been making in additional maintenance technicians? I think these investments all kicked off in the back half of last year. So, can you just outline where those newly trained staff are in their learning curve and perhaps how the ramp up looks from here in terms of the returns you expect to generate off of them?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Yeah. We're pleased that the ramp up not only is happening, but we're starting to see it in terms of productivity and service quality for the newer adds. As Cristina mentioned, these additions are in kind of high value markets, as you can imagine, in Europe, in mature economies, specifically Japan, as well as in North America. So, we're making the investments where we see the high value. Most of these people are not just on boarded, but they've been through our training. Obviously, apprenticeship periods are different based on different regulatory requirements and different approaches and different – we control and run all of the training and apprenticeships outside of North America. In North America, our partner and our multi-employer union does the apprenticeships and they work for us as helpers for four years. But in the rest of the markets, it happens in a much shorter time span and we're pleased to see how they've been developing.

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We talked about in the second quarter some of the reasons we had to use subcontractors and other labor to do more of the backlog conversion. That's level – excuse me – that's leveled out now as these people are coming up to speed and that's going to continue to make an impact going forward. We'll report at four – at quarter four where we are in population. And I just want to repeat what Cristina said, in the high value countries, you'll see it. In the countries that are contribute a little less, we've obviously been managing that tighter. So, population – we're still on track for adding, but we're obviously managing dynamically places we're adding and places where we don't need as many mechanics, but no issue in terms of recruitment or their learning curve. We're really pleased with where they're coming along.

Lewis Merrick
Analyst, BNP Paribas SA (London Branch)

Q

Thank you very much.

Operator: Your next question comes from the line of Joe O'Dea with Vertical Research. Your line is open. Please go ahead.

Joseph O'Dea
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning. Thanks for taking my questions. I wanted to start on the Service margin side of things and we'll get more details in a few months. But the crux of the question is, the position for Service margins with the improvement sequentially in Q3, what that sets up for next year and the ability to grow those year-over-year. And then, just trying to think through some of the moving parts as mod outgrowth presumably continues and the mix headwinds there, some non-repeat of some of the initiatives this year related to the Service organization, the degree to which repair growth is still poised to drive solid growth. And then, anything else that you'd be doing on the maintenance side? And so, as we combine all those factors, how to think about the prospect for Service margin growth next year.

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Hi, Joe. This is Cristina. Thanks for the question. Look, at this point, we are not going to provide guide on 2027 according to our standard earnings practice. And we remain operationally focused on delivering on Q4. And I can give you some color on what the trends are going in. So, on the one side, we feel very good about revenues. We see a sustained growth in repair, in modernization based on the demand, based on the acceleration of the resources available. That's also the pricing flowing through and that's expected to continue.

From a profit standpoint, the investments we are placing this year in Service remain in the base, this is the right thing to do. We see the quality improving and the retention improvement will lag and – but will come over time. Productivity, we see it stable. And assuming that it continues to improve, that should be a better compare next year and we continue working on that as we ramp up the execution of our growing backlog. Price is also going to build up and we are very pleased with the execution of our micro-pricing initiatives and we only need to consider the incentive compensation depending on where we land the year.

Joseph O'Dea
Analyst, Vertical Research Partners LLC

Q

Got it. And then, just specifically within mod and the margins there, could you talk about some of the opportunities that you're looking at moving forward, thinking about – while it's a mix headwind, just the ability that you might

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have to move the needle on the mod margins themselves, how much of that is volume leverage, which is obviously already good versus other factors that you're working on?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

Thanks, Joe. And hey, congrats on your new role too. Listen...

Joseph O'Dea
Analyst, Vertical Research Partners LLC
Q

Thank you.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

...in – yeah, you bet. In mod, we believe we will get operating leverage. And actually, this quarter, we saw it was a significant step up for us versus the second quarter. I'm not going to go into exact numbers. We've said we want to get to 10%. This quarter was the closest we've gotten in a while. And I think that shows the operating leverage. The operating leverage comes from volume, but it also comes from our ability to drive supply chain efficiencies as we put mod across the same line as New Equipment. It comes from the ability to get productivity in mod and installation when we're doing more and more installation. So, the – there's all these add-on mod benefits that will come. We're not going to stop when we get to 10%, but where we – from where we started, that's – that was a significant medium-term goal for us and we should be able to achieve that in the medium term, if not improve it.

Now, other opportunities will continue as we continue to develop new modernization packages, again for specialized verticals. But the modernization opportunity is large, both in full modernizations and in partials. We're seeing it across not just every region, but every segment. We're seeing across resi, we're seeing it across office, we're seeing it across commercial, we're seeing it across infrastructure. So, it is the continuing growth signal for the future, and it's got a long run time to go. So, it's on us to optimize for it and to drive volume, to drive productivity and obviously to control input cost.

Joseph O'Dea
Analyst, Vertical Research Partners LLC
Q

Thank you.

Operator: Your next question comes from the line of Rob Wertheimer with Melius Research. Your line is open. Please go ahead.

Rob Wertheimer
Analyst, Melius Research LLC
Q

Hi. Thanks. My question is just on – you've touched on this, but how are you thinking about the time delay between service quality improvements and improvements in retention churn? And then, just, Judy, just more kind of structurally, do you have any concerns around the price? Is that an issue in any of this kind of lag, churn, et cetera? Or, is it still clear to you that it's the service quality issues you had a while back? Thank you.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.
A

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It is predominantly a service quality issue, Rob. We don't tend to lose service contracts based on price. It's on responsiveness. It's on the quality of what we're doing. It's showing up when we don't have mandated visits in many countries, but still going, doing the entire checklist. And we manage and measure all that with our service quality. So, the fact that not only is that improving, but we saw sustained results, we're very pleased with that.

The challenge you face in the lag and it's hard to give you an exact lag, because every contract's different. And if you think about how many service contracts we have, you're talking hundreds of thousands of them. The lag depends on if you're in the final year and maybe you can't sway a customer that you've improved the service quality enough.

Everywhere else, we're getting great response. The customers I talked to unsolicited, they're giving us feedback that they're really seeing a change. They're finding value in Otis ONE and our ability to be – to do preventive maintenance, our ability now to do and to bid this proactive repair, so that their elevator doesn't go down. They're really appreciative of that.

And that's a combination of our skilled technicians making a recommendation at times. That's a combination of us using an AI engine to be able to use this Otis ONE data and all of the information we have to do proactive proposals and our sales force for delivering that, defending it and showing the value. So, I can't give you a precise retention lag in days or months, but we're going to – we'll see it. I can tell you that it looks no worse than where we ended 4Q 2025 or year-end 2025, I should say, where we sit today. So, we know we've contained it and now, we want to continue to see it grow.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thanks.

Operator: Your final question comes from the line of Brandon Knutson with Morgan Stanley. Your line is open. Please go ahead.

Brandon Knutson
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. I wanted to start on maintenance and repair, so grew 4% organically, which is a step down from 6% last quarter despite having more pricing in this quarter, which would imply a sequential decline in volumes or something else related to, I think, mix and churn you've been highlighting. Can you give us some more color on that and what's kind of driving this near-term disconnect between the growing service quality index, which you've been highlighting for multiple quarters now and this kind of slowdown you're seeing in maintenance and repair.

Cristina Méndez
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Hi, Brandon. This is Cristina. Thanks for the question. So, look, on the maintenance side, maintenance grew 3% in Q3 – in Q2, and now you said 2% in Q3. So, the slowdown is related to the performance in retention. And we were transparent in Q2 that retention at that time was down [indiscernible] (00:56:17) and that's, of course, a headwind in the maintenance growth. On repair, we are very pleased with execution momentum, 9% in the quarter versus 12% in Q2. But we see an ongoing demand on the backlog and also we have all the resources we need to execute. This is about the calibration of where we put the resources between modernization and repair. That can change in a given quarter. But overall, the trend is really positive.

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Brandon Knutson
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. And then, switching to modernization, another strong organic quarter of 20% there. It sounded like last quarter to hit the 24% growth rate, there were some kind of operating inefficiencies in terms of trying to get the labor to hit that organic growth number. Are those still a factor in this quarter or have you been able to improve productivity enough where you can maintain regular margin rate there and also this high growth rate we're seeing?

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

A

Yeah. Brandon, we've been ramping up to be ready to perform and do the conversion out of the backlog on mod. And as I shared a few minutes ago, we did see sequential margin improvement in mod this quarter that we're very pleased with. So, we used less subcontractor backfill is probably the best way I can call it in certain parts of the world. We've moved Otis resources, so now they're in region where they need to be to do additional mod work. So, that should continue to eliminate over time that issue we saw in the second quarter. But thanks for the question.

Brandon Knutson
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: We have reached the end of the Q&A session. I will now call – I will now turn the call back to Judy Marks for closing comments.

Judith F. Marks
Chair, President & Chief Executive Officer, Otis Worldwide Corp.

Thank you, Sarah, and thank you, everyone, for your questions. Looking forward, we remain focused on delivering on our commitments through the remainder of 2026 as we diligently execute on our strategy. Thank you for joining us today and please stay safe and well.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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