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Otis Worldwide Corp. (OTIS)

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CORPORATE PARTICIPANTS

Judith F. Marks

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

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Chris Snyder

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Well, thank you, everybody. Chris Snyder, US multi-industry analyst. First, thanks to everyone in the audience for really filling up the room. Great to see the attendance on the last day of the conference. And no better way for me to wrap things up than with Otis. We have the CEO, President and Chair, Judy Marks, with us. So, thank you for joining. Judy is going to start with some opening remarks.

Judith F. Marks

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

Yeah, thanks, Chris. Please note, except or otherwise noted, I'll speak to results from continuing operations, excluding restructuring and significant non-recurring items. Reconciliation can be found in our second quarter earnings presentation on our Investor website. We also remind listeners that today's discussion contains forward-looking statements. Otis' SEC filings provide details on important factors that could cause actual results to differ materially.

So, with that, Chris, I'm delighted to be the closing for this conference.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

The closer. I appreciate that.

QUESTION AND ANSWER SECTION

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Maybe starting off high level, a lot going on in the world. Otis is as global as any company I cover with operations pretty much everywhere. Can you just kind of maybe talk about what you're seeing across geographies?

Judith F. Marks

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

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Sure. And we're proud that we're global. We actually think that plays to our strength, especially with the strength of our Service business. So, we don't have quite the volatility you see in the construction cycles. But let me start with New Equipment and what we're seeing.

If you really look at how we're performing, ex-China, really pleased with our results. We're seeing all three other markets doing very well. Our orders second quarter were up 11%, ex-China. Our backlog in New Equipment is up 8%. So, it's a – so, where are we doing well? Clearly, North America, four straight quarters of teens growth in New Equipment, even with interest rates where they are. So, our team's performing well. We're gaining share and it's really setting up nicely. We ended the second quarter with backlog of 5%. It's setting us up nicely for sometime in 2026 and beyond, because of about the 18-month cycle from book to final installation and sell off.

Asia Pacific, great highlight for us. Sustained growth in New Equipment. India, Southeast Asia, Japan is growing, and probably the weakest of the Asia Pacific markets would be Korea. We've seen that now. They're down almost as much as China has been for the past few years. But we're seeing a nice inflection with the new president and a focus on increased housing, well over 1 million units before the end of the decade for housing units.

Europe, for us, that's EMEA, Middle East and Africa, strong, South Europe strong. Mixed story a little bit in North Europe, not surprising with everything going on in France and Germany from a New Equipment, but still opportunity in every market, assuming we have sales coverage and people are ready to buy. And finally, obviously, China is an important part of our business, but only 12% of our revenue, second quarter versus the whole enterprise revenue. We're very focused on making sure we hit that stabilization point and making sure we can see that in the market there.

The China market's been down about 40% over the past four years. But incrementally, if you look at second half of 2024 to first half of 2025, we've seen sequential improvement from what we see this quarter and second half of the year, that sequential improvement is going to continue. And we believe we will see stabilization in the China new equipment market before year end with everything we're seeing across the country. That'll translate to revenue sometime in later 2026.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Well, appreciate that. We'll get back to the New Equipment market, but maybe we could start on the Service side. That's really the value – that's really the value of Service. That's why people on the stock. We have seen the Service organic growth softened in the first half of the year. Can you, I guess, maybe just talk about some of the headwinds faced there and what gives you confidence that the growth will get better into the back half?

Judith F. Marks

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

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There are two primary reasons why we saw softness in the first half of the year. The first was in our repair business and this was really driven by the first quarter as we were operationalizing UpLift, especially in certain large regions. It took us some time to absorb those organizational changes. UpLift still on track, going to provide \$200 million in run rate savings, but our repair business slowed down a bit. Not the backlog, not the work, not the availability of mechanics, but we only increased by 1% in the first quarter. We knew that wasn't acceptable. We were kind of a high-single-digit repair business across the globe since the end of COVID.

So, what you saw was the progressive, the sequential growth. We were up 6% in the second quarter, backlog of 8%. And that 8%, you will see flow through in the second half of the year. Repair, our highest margin product globally, really strong. It'll get back to that high single-digit. And not only should you expect that in the second half of the year, that should be what you expect from Otis as elevators continue to age, some will modernize, others will wait. And that means that break/fix business will be strong.

The second issue and the second area that we are very focused on is this modernization growth. Think about refurbishment, 8 million units over 20 years old, of the 22 million installed base. For us, it looks a little bit like New Equipment in terms of major projects versus volume business. So, at times, it's lumpier because if you're going to modernize in a building, it's not construction, it's a live building, a hotel, an airport where you can only work certain hours. So, we were up 10% in first quarter, only up 5% in the second. Again, it was the lumpiness, we have the resources, the backlog. Our second quarter orders in mod were up 22%. You should expect something like that going forward. Not every quarter, but – but really strong. US and Canada was up 50% in the second quarter. China mod revenue was up 20%. Our backlog is up 16%.

So, we did guide an outlook that will finish the year at 10-plus percent mod revenue. So, you can figure out where that's going to come in second half. Those are the two items. We've got them under control. We've got the resources. I'm looking forward to the second half performance in both.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Yeah, no. I appreciate that. And I think, we can – I think the mod business, I think that that lumpiness makes sense. That's a bit of an upgrade. Obviously, the orders tell us where it's going. But I guess on repair, that does not seem like a business that is thought of as being lumpy. But, obviously, great to see the ramp back in Q2. Anything to call out on the Q1 that caused some of that volatility?

Judith F. Marks

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

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Again, I think it was more internal. I think you've seen the reaction already and you'll see that as we run through the second half of the year on repair. Repairs are really stable business. And as these units age, they break more. So, this is our break/fix unit – break/fix volume. Our customers within our 2.4 million Service portfolio come to us for repair. They call us, we come and it's got great attributes. It's fast because it's book, ship, install. We don't want a huge backlog here, because people don't want their elevators or escalators down long. But we've got – as I said, we're ready to deliver and you'll see more of that. It's, again, as people age, as buildings age, elevators age. And until people really commit to that modernization or refurbishment, our repair business is going to continue to grow.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Yeah. Appreciate it. The engine for the Service business is obviously the maintenance part of the portfolio. Pre-spin, if I remember correctly, maybe 1%. You've got it up to 4% coming out of the spin. There's been, I think, a lot of skepticism in the market on ability to sustain that particularly in a world where you kind of call it out, a lot of these New Equipment markets have been pressured. So, can you just kind of talk about that move from 1% to 4%, and why is it sustainable?

Judith F. Marks

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

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Yeah. So, the portfolio itself to think about our portfolio today being 2.4 million units, that 4% growth, we are netting adding 100,000 units a year. You're right, for the past decade, before we spun in 2020, we were growing at a fairly anemic 1%. And when you realize that we're a service company, that 90% of our profits come from service, over 60% of our revenue. When you realize that's the main thing, you look at all the levers it takes to drive this portfolio growth, because our strength and our competitive advantage is in density. And when we have this density, you'll be able to see it in our Service operating margins.

Our service – I'll get right back to portfolio, but our Service operating margins have increased every quarter since we spun, 21 – you could argue this is our 22nd quarter and we're really proud and actually it was the highest in second quarter at 24.9%. But the portfolio itself, we've always told our investors is watch that growth, because it drives maintenance, it then drives repair. And we retain that for 20-plus years and then we modernize. That's what you should watch for us.

The 4% is absolutely achievable. There's multiple levers. We incent each of our 1,400-branch managers on what we call net churn. So, what happens right now is, basically our cancellations or lack of retention gets offset with units we bring back on the portfolio and we recapture. And then, we grow based on converting New Equipment. We can control all three of those levers and especially the retention rate where increased quality of service, increased performance will help.

So, as we grow New Equipment share, which I'm really proud of our team, we've been doing that between the innovative products we have and coverage. As I said, the US is up four straight quarters before any interest rate changes and we're getting ready. We have a lot of proposals on the cusp, if there's going to be some interest rate changes. We're excited about that. So, we're going to drive New Equipment share gain all over the globe.

Second, we're going to focus on quality of service for retention. And lastly, modernization enters the portfolio. When we modernize a unit that's not on the Otis portfolio today, and we bring it on after we modernize it, we go through the warranty period.

So, we've got all these different levers that really make this flywheel not just comprehensive, but resilient. And I think that's what we've seen. 4% – we're going to have an Investor Day next year. We'll lay out the targets. But the market's growing at 4%. The installed base is growing at 4%. So, we should be at least at market. And if we're the market leader, we should be doing better.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Well, I mean, maybe following up on that and I honestly don't want to front run the Investor Day, but, particularly, if just the New Equipment market gets better, is there reason to believe that that could pick up, if the headwinds alleviate?

Judith F. Marks

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

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So, listen, I think the most important thing to watch for the New Equipment markets, because the New Equipment markets are strong everywhere, but China. So, if we wait and watch and China stabilizes, it can only get better from a compare from there. Again, 8% backlog growth in New Equipment ex-China. So, all the other three markets are doing well. We've got high growth markets that'll continue to contribute. But then again, you think about modernization with 8 million units over 20 years old. The New equipment segment this year, about 730,000 units versus a pool and a total available of 8 million. They're not all going to happen overnight. But every night in the modern – every year in the modernization market, 400,000 to 500,000 units now move into that TAM, move into that addressable market.

So, we're actually, from an equipment standpoint, a unit count, a front-end load to the flywheel. We're going to have a larger market over the years when New Equipment and mod combine, than we ever saw at the peak of New Equipment, significantly more, which gets us excited.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Yeah. I mean, maybe kind of following up on that, you kind of mentioned the New Equipment market, relatively small to the installed base. So, really kind of driving retention is paramount. You guys talked about how that retention rates softened in the back half of last year, which was a surprise to me because it felt like a lot of the Otis ONE digital initiatives were really about getting closer to the customer, which felt like it would then better position you for that kind of work. So, can you just maybe talk about what's going on with the retention rate and any opportunities to improve it?

Judith F. Marks

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

A

We were not satisfied with the retention rate we ended 2024 with. It was at 92.4%. Our best performance since spin was in 2022. We were just at 94%. That means 6% of our portfolio and our customers are canceling us. At 94%, we were world-class, but that doesn't mean we're not shooting for 95%, but we need to get back there. It's not about price. It's about the quality of service. So, what we're doing is we're investing and the way you invest to improve quality of service is you add more field labor.

Now, they're not going to be billable, but we think because of the total lifetime value of a unit over 20 years, this customer retention is going to make a difference. Otis ONE is absolutely making a difference. We've got 1 million connected units in our 2.4 million portfolio. It's absolutely making a difference in terms of stickiness, but we need to wake up every day providing the best quality, meeting our commercial commitments. And to do that, we are going to cede some investment in some of our not-top-quartile 1,400 branches, but in the others to make sure that we're visible, we're showing up on time, we're doing the commercial commitments we said we're going to do, the repairs are on time, and these customers don't even think about canceling us. They just auto renew.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Appreciate that. I think when the market sees that that softer retention rate, it brings up competitive concerns. Has there been any competitive lands – changes in the competitive landscape on the Service side?

Judith F. Marks

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

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So, most people know, we have a tremendous landscape of independent service providers, many of which are extremely hyperlocal. It's probably the best way I can put it. 55% of the 22 million units roughly are serviced by independent service providers. There will always be a place for independent service providers. We welcome them in the competition sphere. However, they tend to now service the older units, the non-connected units, the units that are less sophisticated, which is why we're committed to Otis ONE, which is why we want this stickiness.

As I said, there's a place for them and I get asked, what can you tell? Are they consolidating? Can you tell amongst the 20,000 or 30,000 of them, there's a few less? You really can't see that, because they also still have market ahead of them in the non-connected world. And that's fine. As I said, there's a place for them in the competitive landscape.

We've seen – again in certain regions, we've seen bundling of ISPs, but integrating small service companies for a larger whether you're private equity or someone else, there are challenges with that. So, we only see one national ISP in Japan. They exist nowhere else and we're not seeing them take our share. We don't lose because of price. We don't get canceled. We get canceled because of quality of service. And our customer not believing that we are the one they want to partner with. And that's why we're investing to address that.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Obviously, Otis ONE and the digital initiatives, I understand how that improves the customer experience, the uptime is better. But can you talk about what it does for Otis' – the cost to serve that, because in a world where people are worried about price competition, maybe the cost to serve is actually the most important thing.

Judith F. Marks

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

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Yeah. So, as you think about our network, again, 2.4 million units, the most dense there is, what Otis ONE provides us is the ability – and it's actually the core part of where we've gotten these productivity gains in the Service business to allow our 44,000 field mechanics, of which about 80% focus on Service, to be more productive, to have the right information at their hands, to actually see in the morning before they even start work what units they need to work on, so they can plan their day with route optimization. They can bring the right part, and they can have a better first-time fix rate. So, it's giving us that ability, again, for productivity. It's giving us a data lake that allows us to do predictive maintenance.

For example, if you think about we know what parts break, on which units, at what frequency and what periodicity. So, if we know that's going to happen to a customer's unit, say, in about 2,000 more uses, then on our next scheduled maintenance, before we get there, we'll send them a proposal, we'll say, hey, should we replace your door opener? And here's the proposal. We'll do it, so that your elevator or escalator will not go down. And customers value that. Whether it's that, whether it's obsolescence parts, elevators do not leave the building. They are aging. They need this care. And no one can provide that better than us.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Appreciate that. Maybe wanted to go over to mod, modernization, obviously the fastest growing piece of that Service portfolio. It's been growing double-digits. Obviously, we see the huge growth at Otis. But the industry as a whole has been seeing really strong growth on mod. I guess maybe – I think a lot of people will think about the installed base of elevators and escalators and they say, okay, well, if it's not really growing that much, why isn't mod growing at this rate? So, can you maybe talk a little bit to that? How big is this opportunity? And then just ultimately like how does that of course come back to the Service flywheel?

Judith F. Marks

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

A

No. So, great question. I want you to think about a mod unit at a unit value level to look like a New Equipment unit. And you'd say, well, but you may not be replacing all the parts, right? You're not doing construction in a brand-new building. But what we are doing in a mod is we're doing deconstruction in a live building. We're taking an old elevator out and then we're putting a new one in. So, at a gross level, the unit value of a mod looks like the unit value of a New Equipment. So, I think of them at a high level as units.

The market itself, out of the 22 million units in the in the world, 8 million are over 20 years old. And think about any other product you use in your apartment, in your condo, in your office building. Think about if your Class B space and you're trying to compete with Class A space for office, with everyone returning to work, you're going to want to upgrade your elevator. You're going to want to make the aesthetics better. You're going to want to add technology, and you're going to want to move people more effectively. And what some people don't understand about mod is it does allow us to group people when we use our campus product and do a mod. It allows us to use our most current and advanced product, our Gen3 product as a Gen3 mod and it allows us to address the market.

So, the market itself again at about 8 million units available, growing 400,000 to 500,000 a year, I mean, the – again, the New Equipment market peaked at 1 million units a year. So, you can – it's discretionary, let's be clear. We can't mandate mods, unless a government says no, you have five years to bring every old elevator up to the new code for safety reasons. We've seen that in Korea. We're living it now in Spain. We'll probably see it in more locations and it's providing better service in a life safety business to residents like in China, where there's a stimulus to help mod.

But mod itself, Chris, I'd say kind of we've always done it. It's been bespoke. We're now industrializing it to look more like New Equipment with manufactured packages, with supply chain scale, with installation crews that can go from mod to mod with a dedicated sales workforce. And so, I'd say first inning, second inning and it will continue if you think about the quantity in 400,000 to 500,000 every year coming on board. I believe it'll continue for almost till we start the next mod cycle.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

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Yeah.

Judith F. Marks

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

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So, we're kind of first inning of a super cycle. The good news is, great opportunity. ISPs, except the very largest, primarily here in North America don't tend to play in this. So, it's the OEM competitors, because an ISP is not a general contractor. We're the GC when we go do a mod. They don't always have – they have some access to OEM equipment, but not the latest and greatest that's coming off our factory.

So, I'd say first inning with a lot more to go and at the contribution level on the price that's one thing mod as of a year and a half ago is now our mod margins have surpassed consistently our New Equipment margins with the goal of getting mod margins to 10% in the medium-term. And just as importantly, then it reenters the flywheel either as an existing unit or a new unit.

We're excited about mod as you think about it's not a construction-driven, it's not a cyclical-driven. It's more of a thesis-driven just based on aging. So, just like the population is aging, buildings are aging and elevators are aging. We're in a sweet spot. It's just starting.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Appreciate all of that. You started off by kind of talking about some of the Service pressure you guys faced in Q1, repair under pressure – or in the first half, repair under pressure in Q1. So, a nice recovery in Q2. Mod on the other hand kind of offset some of that by softening in Q2. So we hear – we see the orders, we see the backlog, like why did that soften? I believe it was 5%, if I remember correctly?

Judith F. Marks

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

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It was 5%. Our mod orders in Q2, again another great quarter, up 22%. Our backlog is up 16%. We've guided that by year end, our mod revenue will be up over 10%. So, you can see that we are going to – it's going to come back strong. Mod also looks a little bit like New Equipment. There's volume mod right, which are these packages you can go into a one-unit, a four-unit building and handle that and then there's major projects. Yeah. The Space Needle, it's a pretty major project unique mod over multiple years.

So, we just probably hadn't instrumented correctly for the second quarter. But that backlog at 16%, I think you'll see we need to do that backlog conversion. But with the orders staying 20-plus, the backlog still going to be high as we go through this year. We've got the resources. Our mechanics are ready. We've got the supply coming off in our factories and our spare parts centers, and it's synchronous growth mod globally. I haven't been able to say that since I've been at Otis, that we've had synchronous regional growth in any product line. I would tell you mod is that product line synchronous growth.

And in China, there's a stimulus program for residential, for really aging buildings, too, where in 2024, they fund the entire mod. It's to a set amount of RMB and we've developed packages for that. There were 40,000 available to bid in 2024. We got some really strong market share. It's 120,000 this year and it'll continue into 2026. Not only will we do well, but you have to not only take the order, you have to deliver it in this calendar year. So, our China business mod, you're going to see some pretty high – even with a good compare to fourth quarter last year, which was high, you're going to see some real growth there.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Interesting. Maybe talking about repair, high single-digits since the company spun out. There was a couple of years, I remember, where you guys were saying, repair, it's growing maybe a little bit above trend. We think it's going to fall off. That obviously hadn't really happened. I guess, is that sustainable? I would imagine all the pressure on the New Equipment side is providing some tailwinds longer term there?

Judith F. Marks

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

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We thought that repair, we'd see an initial early snap back after COVID, because during COVID, we didn't have access to every elevator all the time. We were an essential service, but repair obviously was muted. Think about the hospitality – industries that were just closed. We couldn't – those buildings, we had little access. So, we thought this high-single digit was a snap back. What we've learned is it's not a snap back. It's a sustained high-single digit, because it goes hand-in-hand with modernization. If you don't modernize, you sit at your condo board and you say, yeah, we're starting a reserve fund, but let's wait one more year or two more years because our elevators work. They break a few – they break, but they work. Well, they break more as they age. And that break/fix is what we call repair. Not the best for customer satisfaction, right, because people don't want their elevators down. But if they choose not to modernize, the only offset is sustained maintenance contract and repair, which ticks up.

So, our outlook for repair is it stays at high-single-digit and that's year-after-year growth of these 8-plus million units, let alone the other units. So, we've got 2.4 million units in our portfolio. Repair backlog is strong. It's the only backlog, though, I'll tell you, you don't want to grow too large. I love backlog. We all in our industry love backlog. You don't want it to grow too large or you really will have some customer – nobody wants their elevator down too long.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Yeah. No. Yeah, absolutely. Maybe moving over to the New Equipment side. You started off talking about the big orders you've seen on Americas into the double-digits. So, I guess the question is, what drove the negative revisions in the Americas' New Equipment outlook? And are you seeing demand soften, despite the orders going up?

Judith F. Marks

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

I think it's similar to probably what you've heard from the last few days here at the conference is we're seeing some project delays in implementation. They're not Otis project delays, let me be clear. We have the mechanics, we have the parts on site, but there are other trades that may not have as much staff as they need. And some of these projects, they're already underway. Recall, for us, New Equipment and mod, when you sign an order, you put an advanced non-refundable payment with us. When we ship from our factories, there's additional payment, which is why our cash profile is the way it is. But on the job sites themselves, we're seeing projects elongate. We don't think this lasts for long, but we think that it – through the end of this year, till we have some more certainty, then that's what we're seeing. And again, I think you've heard that all week. I don't think it's major for us. We went from down mid-single to down high-single, primarily in the US. So, not worried about it after that. But it's had a small impact.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Yeah. No, I mean has been a theme, that elongation or kind of waiting for things to convert. Maybe going over to some of the company's cost savings initiatives. Any update on either UpLift or just the China transformation initiatives you've announced?

Judith F. Marks

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

If you recall from the first question you asked, I said China for us, we're trying to get to that place where we have stabilization, but we haven't waited. We know that we're switching our China business to look like more of a

mature business. The mod opportunity, 9 million of those 22 million units in the installed base are in China, and they change those out at about 15 years due to heavy usage is going to be huge.

Our Service portfolio, we've more than doubled since we started 200,000 at – it's been we're now at about 435,000 in our Service portfolio. That's some – that's a pretty small share on 9 million. So, we knew we needed to restructure our New Equipment business to prepare us for the Service growth. We know we're going to get and the mod growth we know we're going to get. That's why we did our China transformation program. We're on track for the \$40 million of run rate savings.

UpLift has been underway for several years. This year, the major activity has been transitioning to our global business service or GBS partner, which we think will help us in multiple ways in terms of recurring transactions as well as multiple ways of being able, once we standardize the processes with them, to apply AI, to apply new technologies and new software. So, we're excited about that. We will conclude the UpLift program at some point this year and have hit our \$200 million run rate. We started with a \$150 million estimate, but we've been able to secure more as we go. And that's what really helps us in the second half of this year. Feel confident in the step-up we have in that Service profit, in the EPS. It's a combination of maintenance, repair and modernization growth, New Equipment stabilization and UpLift in China transformation, helping all three of those come together.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

No, really appreciate that. Maybe, kind of turning over to capital allocation, and I guess specifically M&A, do you think there is more opportunity for Otis to do M&A?

Judith F. Marks

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

Absolutely. We do bolt-ons today. If you look historically, we target in our capital allocation about \$50 million of bolt-ons. We are already closer to \$100 million as we finish the second quarter. And that's because there's more available in the market. We knew these days would come where more of the ISPs were ready to retire. We understand where they are. We have the ability to integrate them. The price is right. They're accretive in the second year, if not sooner. And it's just if we can add to the portfolio and that lifetime value of the portfolio, especially in high lifetime value countries, if we can add mechanics that way, who are already experienced on both Otis and non-Otis equipment, it's a win-win for us.

We've also been kind of cleaning up some JVs, which you'll see our NCI line going down, as you monitor our Qs. So I think we've been really good stewards. And while we've done all that, we return from an investor-friendly perspective. Our dividends up 110% since spin. We raised it 7.7% in April. Our share buyback, we targeted \$800 million. We're at \$550 million through second quarter. I can share today we have completed that \$800 million already. So, I think all the cash we bring in, we share with the shareholders. Always looking for M&A where it makes sense as a pure play, right? The bolt-ons make sense. And someday if there's a transformational or generational acquisition, we think we have the balance sheet ready for it.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Interesting. Interesting. Kind of maybe, kind of coming back to the micro here, I guess, how confident are you in the back half guidance? It's calling for this Service growth to improve, the Service margin expansion to widen. So, I guess, how confident are you in that back half guide? And how will you get there?

Judith F. Marks

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

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So, we – if you think about it, a little slower start in the first half of the year. We don't tend to have calendarization or seasonality in the Service business. And that's 60-plus percent of our revenues, 90% of our profits. But we had a few challenges in the first half of the year admittedly. We have line of sight. Obviously, we'll share at third quarter earnings, but I do feel comfortable sharing that what we shared at second quarter earnings on third quarter, what we would achieve, we believe you will see that. And whether that's repair increasing, where we are on portfolio, mod – obviously, mod revenue increasing and order strength.

So, we're continuing to see – and that early sign of the stabilization in China, that's what you should be looking for without pre-disclosing anything specific. We've got the confidence in that because we've got the people, we've got the customers, we've got the backlog. Again, backlog's up 8% from a New Equipment standpoint, mod's at 16%, repair is at 8%. We have to perform. And I can tell you as we look at the current business today, we are performing to get the step up in 3Q. And it's a trajectory from there that gets us back to what you should expect on an annual basis from Otis, right, in terms of Service performance, top line and bottom line, it's where we've been before, but the bottom line continues to improve on margin expansion.

Now, will that improvement on margin expansion stay at the same rate over time? Probably not. Will we could, though, continue to grow the portfolio and drive really good EBIT dollars and cash dollars? Absolutely, as the leader in the industry.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

My last question of Laguna 2025, I guess, maybe just kind of take the floor. What makes Otis unique? Why should investors invest in Otis?

Judith F. Marks

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

A

We're a service company. We've got resilient, reliable, predictable business with a strong backlog and a great structural flywheel in Service that allows us to be, as I said, predictable and to deliver. When you look at Otis versus our competitive peers, we have the largest portfolio, which gives us the service density advantage. We have an incredible workforce of 44,000 of our field professionals, who show up every day. I couldn't be more proud of them. And any time I get to see any one of them, I tell them that.

We have organic growth in front of us. That's non-cyclical from a mod standpoint. Regardless of construction cycles, that's just in the early innings. So, we have growth coming for the top line. I think repair and mod is the two biggest generators. We have a solid growth story in our Service portfolio at 4. And we'll see how much further we can take that. And we're still the innovator in the industry with an investor-friendly capital allocation and just really a business that as a service business continues to perform. I think we've shown this now 22 quarters and it just shows that resilience, regardless of headwinds and China stabilizes, everything else continues to advance. New Equipment looks good, but that's not the core. The main thing about Otis, remember the main thing? We're service company. Thank you.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you, Judy. Enjoyed the conversation. Thank you so...

[Abrupt End]

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