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Otis Worldwide Corp. (OTIS)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' Fourth Quarter 2024 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.

I'll now turn it over to Rob Quartaro, Vice President of Investor Relations. Please go ahead.

Robert Quartaro

Vice President-Investor Relations, Otis Worldwide Corp.

Thank you, Sarah. Welcome to Otis' fourth quarter 2024 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 Form 10-K and Quarterly Reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

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

Judith F. Marks

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

Thank you, Rob. Good morning, afternoon and evening, everyone. Thank you for joining us. We hope that everyone listening is safe and well. We finished 2024 with solid results, both for the fourth quarter and full year, and we enter 2025 with momentum and confidence in our Service-driven business model. We achieved these results through the dedication of our colleagues around the globe. So, I want to express my gratitude for their hard work, execution of our strategy, commitment to our customers, and demonstration of our Otis Absolutes.

Starting on slide 3. We achieved organic sales growth of 1.9% in the quarter, driven by continued strong performance in Service, which grew 7.8%, with great performance in both maintenance and repair and modernization. We grew our maintenance portfolio by more than 4% for the third consecutive year, and our portfolio now stands at approximately 2.4 million units, leading our industry and validating the impact and contribution of our Service flywheel.

Modernization was a highlight in 2024. We ended the year with our backlog up 13% at constant currency, while modernization orders grew 18% in the quarter, which sets us up well for the year ahead. We generated \$682 million of adjusted free cash flow in the quarter, which is our highest quarterly result since spin. Cash generation was driven by excellent collections and a reduction in our net working capital.

Additionally, we continued the strong execution of our customer-centric UpLift program, enabling us to now increase the expected annual run-rate savings to \$200 million by the second half of 2025. In addition, earlier this month, we announced a transformation of our China business to better position ourselves for growth in Service and modernization in the current and evolving China market environment. We are well underway in transitioning our revenue and profit streams in China from our New Equipment to our Service and mod flywheel.

We also made meaningful progress on ESG initiatives that are aligned with our business strategy. In the fourth quarter, we received a Gold rating for the third year in a row from EcoVadis. Many of our customers around the world take ESG strongly into consideration as they make procurement decisions, and this recognition demonstrates that we continue to pursue and execute on sustainable strategies that drive value for our stakeholders.

In 2024, we delivered organic sales growth for the fourth consecutive year since spin and 50 basis points of overall adjusted operating profit margin expansion. We have expanded company margin by 30 basis points or more every year since spin. Despite the New Equipment macro headwinds our industry faced in 2024, we maintained our New Equipment share at 20%. We grew adjusted EPS 8.2% and finished the year strong with approximately \$1.6 billion of adjusted free cash flow in 2024, allowing us to return \$1.6 billion of cash to shareholders through dividends and share repurchases. We believe our shareholder-driven management strategy is sustainable.

Turning to our orders performance on slide 4, New Equipment orders declined 4% in the quarter, due to continued challenging market conditions primarily in China. Excluding China, New Equipment orders increased approximately 11%. The Americas delivered a strong second half of the year, growing orders high-teens in the last six months, including mid-teens growth in Q4, with strong performance in Latin America.

Asia Pacific delivered greater than 20% growth, with solid results across the region. Orders declined by high single-digits in EMEA in the quarter, including weakness in Western Europe, but finished the full year up 3.7%. In

China, orders declined more than 20% in the quarter due to continued soft demand. Our New Equipment backlog at constant currency was down 4% versus the prior year, although excluding China, it was up low single-digits.

Modernization orders bounced back in Q4 as expected with, as I noted, 18% growth. Growth was widespread, including China up greater than 20%. We ended the year with modernization backlog up 13% versus the prior year at constant currency. New Equipment and modernization orders combined grew in the quarter, with backlog down 1 point, as we continue to drive a shift in mix from New Equipment to modernization in China and other mature markets, where there's a higher concentration of aged units in need of modernization and refurbishment.

Our Service portfolio grew 4.2% and now stands, as noted, at approximately 2.4 million units, strengthening our number one position globally. All regions contributed positively, with mid-teens growth in China, mid single-digit growth in Asia Pacific, and low single-digit growth in both the Americas and EMEA. Globally, our recaptures and cancellations were approximately net-neutral for the third consecutive year, leaving net churn at zero and driving growth through conversions. As of year-end 2024, we have approximately 1 million connected units globally.

We continue to innovate to adapt to changing market demands and to better serve our customers, while driving growth and profitability across our business. For example, we continue to roll out our digitally connected elevator platforms, launching Gen3 across Asia Pacific, where smart cities are being increasingly developed in major urban areas. In addition, we launched the enhanced Public Escalator globally, a flagship infrastructure product that provides new features that are critical to our customers' needs.

We also rolled out new global modernization packages to help our customers proactively plan to upgrade their units to the latest safety standards and to provide a more comfortable experience for their passengers. With 8 million of the 22 million global installed units aging and ready to be upgraded, this is a significant opportunity for our modernization business, which is a growth lever for our Service portfolio. Overall, R&D and strategic investments remained relatively stable at about 1.4% of sales for the year, reflecting our ability to invest and innovate efficiently.

We continue to win many exciting projects based on our innovation, ability to deliver and the trust our customers have in us. For example, in Mexico, Otis will install 142 units at the Mexican Social Security Institute's facilities. Our elevators will help support the agency's mission by providing safe and reliable vertical transportation at 41 public clinics and hospitals across the country, and upon completion, will be added to our maintenance portfolio, joining the nearly 600 existing IMSS elevators already serviced by Otis.

In Hyderabad, India, Otis will install 21 units in The Trilight Towers, a set of luxury high-rise residential apartments. These towers, which stand up to 60 floors tall, will be Otis India's first use of the Otis Compass 360 destination management system in a residential project. In China, Otis will modernize more than 120 units across two infrastructure projects. At the Xi'an Airport in Northwest China, we will upgrade 22 moving walkways and 58 elevators, and in Wuhan, we will modernize 46 escalators across 8 stations on the city's Metro Line 2.

Finally, in the UK, Otis will install 17 elevators and 1 platform lift at the Ellison Institute of Technology's Oxford Interdisciplinary Research and Development Campus that will incorporate more than 30,000 square meters of research laboratory space, an oncology and preventive care clinic, and educational and gathering spaces.

Turning to our fourth quarter results on slide 5. Otis delivered net sales of \$3.7 billion, with organic sales up 1.9%. Adjusted operating profit, excluding a \$5 million foreign exchange headwind, was up \$22 million, driven by the Service segment. Adjusted EPS grew approximately 7% or \$0.06 in the quarter with strong operational performance and the benefit of a lower share count.

With that, I'll turn it over to Cristina to walk through our 2024 results in more detail.

Cristina Méndez

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

Thank you, Judy. Starting with segment sales performance on slide 6. Total organic sales growth in the quarter was driven by Service, which was up 7.8%. New Equipment organic sales were down 6.8%, with Americas, EMEA and Asia Pacific growing mid single-digits on the back of a strong backlog execution. Within China, the backlog heading into the quarter was down mid-teens. This, together with a strict credit control in shipments, led to China New Equipment sales declining greater than 20%. This decline was partially offset by growth in each of the other regions, with notable strength in India, Spain and Latin America.

Service organic sales were up 7.8%, which is our best performing quarter of the year, with mid single-digit or greater growth in all regions and all lines of business. Maintenance and repair sales were up 5.6%, with maintenance benefiting from our continued efforts in driving portfolio growth, together with disciplined pricing strategy. Pricing was up 4 points, excluding the impact of mix and churn. Repair volumes continued growing approximately 10%, and modernization sales further accelerated to 18% growth in the quarter, with growth across all regions, including more than 20% growth in Asia Pacific each quarter this year.

Turning to segment operating profit performance on slide 7. New Equipment operating profit of \$64 million was down \$24 million at constant currency, driven by the headwinds of lower volume and regional and product mix that were partially offset by productivity, including the benefits from UpLift, and lower commodity cost.

Operating profit margins came in largely as expected at 4.7%. For the full year, New Equipment operating profit was down \$44 million at constant currency, and operating margin finished at 6.1%, 50 basis points lower versus the prior year, with the softness in China being partially mitigated through productivity, pricing and commodity tailwinds.

Service operating profit of \$569 million increased \$54 million at constant currency, with higher volume, favorable pricing and productivity, including the benefits from UpLift, more than offsetting annual wage inflation. Operating profit margins expanded 50 basis points to 24.5% in the quarter and 60 basis points to 24.6% in the full year. Service operating profit in 2024 accounted for 93% of our overall operating profit compared to 89% last year.

Moving to the full year 2024 adjusted EPS bridge on slide 8. Adjusted EPS in the year grew \$0.29 or 8.2%, including \$0.22 operational growth at constant currency, fueled by our continued solid Service performance. Below the line, our adjusted effective tax rate declined by more than 1 point in 2024 to 24.8%, driven by continued focus on optimizing the effective tax rate. Reduced tax rate and NCI, together with the lower share count, more than offset headwind from increased interest expense.

Additionally, we finished the year with our highest quarterly cash flow since spin, delivering the expected improvement in working capital in Q4, mainly driven by excellent collections. Overall, solid performance throughout 2024 with a strong finish to the year. We continue to deliver value to shareholders on the back of sustained execution of our Service strategy. Despite challenging New Equipment market conditions in China, we have delivered high single-digit EPS growth, as anticipated, proving the resilience of our Service-driven business model.

I will now turn it back to Judy to discuss our 2025 outlook.

Judith F. Marks

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

Thanks, Cristina. Starting on slide 9 with the market outlook. For New Equipment, in the Americas, the market was up mid single-digits in 2024, with mid single-digit growth in Latin America and low single-digit growth in North America. We expect that the market improvement that started in the second half of 2024 will continue and anticipate that, in 2025, the Americas market overall will be up low single-digits.

In EMEA, the market was down mid single-digits in 2024, primarily driven by Western and Central Europe. Although we anticipate that these two markets will not recover in 2025, the decline is expected to moderate compared to 2024. In total, the overall EMEA market is expected to increase low single-digits. In Asia, the market was down about 10% in 2024, with solid growth in Asia Pacific, up low single-digits, partially offsetting the continued decline in China, which we estimate was down approximately 15%.

We've seen an approximately 35% reduction since the height of the China New Equipment market in 2021. Although the situation remains fluid, we expect the China market to decline approximately 10% in 2025. We believe the China market will stabilize late in 2025, resetting to this new level. Asia Pacific is expected to be up mid single-digits, with India and Southeast Asia driving the growth, while Korea is expected to be down again and Japan is expected to be flat.

Overall, in 2025, we expect the global New Equipment market will be down mid single-digits in units, with the growth in the Americas, Asia Pacific and EMEA more than offset by the decline in China. This represents a sequential improvement in New Equipment market trends in 2025 compared to 2024. In Service, the global installed base continues to grow mid single-digits, reaching approximately 22 million units at the end of 2024. As we turn to 2025, we anticipate continued mid single-digit growth, driven by growth in all regions. Taken together, we expect the global installed base to reach approximately 23 million units at year-end.

Turning to our financial outlook for 2025. We expect net sales of \$14.1 billion to \$14.4 billion, growing 2% to 4% organically and down 1% to up 1% at actual currency. Adjusted operating profit is expected to be between \$2.4 billion and \$2.5 billion, up \$55 million to \$105 million at actual currency or \$120 million to \$150 million excluding foreign exchange headwinds.

We expect adjusted EPS in the range of \$4 to \$4.10, up 4% to 7% or more than 20% versus the prior year at the midpoint of the guide. Finally, we expect adjusted free cash flow of approximately \$1.6 billion. We will continue to execute on our disciplined capital allocation strategy and expect to repurchase approximately \$800 million in shares in 2025, grow our dividend payout and pursue approximately \$100 million of bolt-on M&A.

Turning to slide 10. As we've discussed over the last several years, the market in China has shifted dramatically. After over 20 years as a high-growth market, it's now resetting as a strong but mature market. We foresaw this and have been working to evolve our business model, shifting from an emphasis on New Equipment sales to deriving value from the lifetime of a customer, with our margin-accretive emphasis on maintenance, repair and modernization sales.

The construction boom in China delivered an installed base that is approximately 40% of total units installed globally today. That's a very large and important market. Each unit requires regular maintenance, repair, and over time, modernization. The many units built over the past 15 to 25 years are entering the prime age for modernization. The modernization opportunity is large and growing. China now presents a tremendous opportunity to drive modernization orders, expand our maintenance portfolio and deliver significant growth in our Service-driven business model.

We are transforming our China operations in both Service and New Equipment to deliver on our China Service flywheel strategy. We are investing in our Service business to profitably grow our portfolio through conversions and recaptures. Through our efforts, we are targeting low-teens annual performance growth – portfolio growth with a focus on quality and margin expansion.

Our Service revenue is now approximately one-third of our total China revenue. To win an increasing share of modernization, we're engaging our New Equipment agent and distributor network to accelerate growth. We see a multi-year opportunity, and we're targeting greater than 20% annual modernization order growth. Within New Equipment sales, we're adapting for the more mature market environment as well.

After growing at a mid-teens CAGR for more than 20 years, the New Equipment market peaked at approximately 650,000 units in 2021. Since then, industry New Equipment units have declined approximately 35% to 420,000 units in 2024. We believe it will stabilize in late 2025 between 350,000 and 400,000 units. We currently operate through two brands in China, which have largely operated independently. The structure has served us well historically and enabled us to grow our New Equipment business over 700% from 2000 to 2021.

To deliver our flywheel strategy, we are consolidating our operations from manufacturing to sales, in addition to rationalizing and simplifying our product portfolio. This will drive additional efficiencies separate from UpLift of approximately \$20 million in cost savings in 2025 and exiting the year with a \$30 million annual run-rate. Taken together, all these initiatives, which have been underway for a while, position Otis to grow revenue and margin in China, which will continue to be a large and important Service market.

Turning to slide 11. We've had tremendous success with our UpLift program and have unlocked approximately \$70 million of savings in 2024. We now expect to deliver a run-rate savings of \$200 million by the second half of 2025. Taken together with our China transformation, we are targeting in-year savings of approximately \$90 million in 2025 and exiting the year with a target run-rate savings of \$230 million.

With that, let me hand it back to Cristina to outline the 2025 segment outlook in more detail.

Cristina Méndez

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

Thank you, Judy. Taking a more detailed look at our outlook and starting with sales on slide 12. Total organic sales are expected to be up 2% to 4%, driven by continued strong performance in our Service segment. We expect New Equipment organic sales to be down 1% to 4%, driven by a decline in China due to continued soft demand, although this represents a sequential improvement versus 2025 (sic) [2024] (00:24:14). Total Asia is expected to be down low to mid single-digits, with a strong growth in Asia Pacific helping to partially offset the decline in China.

We foresee the Americas to be down low single-digits, as we work through a lower backlog, impacted by market pressures in the first half of last year. EMEA is anticipated to be up low to mid single-digits. We anticipate continued strong performance in Service, with overall organic sales up 6% to 7%, in line with our growth in 2024. This includes maintenance and repair that are expected to grow mid single-digits on the back of sustained portfolio growth over 4% and modernization up high single-digits, as we continue to execute on our strong backlog from the year-end.

Turning to slide 13. We have delivered profit growth every year since spin, expanding operating profit margin by 220 basis points on the back of consistently a strong performance in Service. We remain focused on growing our

industry-leading maintenance portfolio, executing on our strong modernization backlog and increasing productivity, including benefits of UpLift and the China transformation. With our proven Service strategy, we will continue setting the industry benchmark in terms of profitability.

In 2025, we expect to expand margins in line with 2024. A sustained and solid performance in Service is anticipated to offset headwinds in the New Equipment business, including pricing, volume and mix. Commodities were tailwinds in 2024. However, we estimate their impact to be approximately flat in 2025. Meanwhile, productivity, including the benefits from UpLift and our China transformation, is expected to be a positive contributor. All-in-all, we foresee operating margin expanding 60 basis points in 2025, delivering \$120 million to \$150 million growth at constant currency.

Moving to the 2025 EPS bridge on slide 14. Our guidance for adjusted EPS is \$4 to \$4.10, with a strong operational performance driving approximately \$0.20 of growth, and along with the benefits from a lower share count, will mitigate around \$0.10 of foreign exchange and \$0.04 in interest headwinds. Note that our guidance is based on current spot foreign exchange rates. Excluding this impact, the midpoint of our guide would represent a high single-digit adjusted EPS growth year-over-year, in line with our mid-term guidance.

We expect EPS in the first and second quarters to be relatively flat, with a stronger growth in the second half of the year, driven by execution of our modernization backlog, realization of cost savings from our UpLift and China transformation initiatives, and improving trends in China and Americas New Equipment. Maintenance and repair are expected to be level-loaded through the year, reflecting the strength and resiliency of our Service business.

Turning to slide 15. Our outlook for 2025 reflects another year of consistent performance and strategic execution, led by our resilient Service business and our UpLift and China transformation programs. We project another year of strong profit growth, with the midpoint of our adjusted operating profit guidance up 6% at constant currency, driven by approximately 60 basis points of margin expansion. Our adjusted free cash flow forecast is approximately \$1.6 billion, which will support \$800 million of shares repurchases and 40% of dividend payout. We remain committed to serving our customers, delivering growth through our Service-driven business model and generating long-term shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Your first question comes from the line of Joe O'Dea with Wells Fargo. Your line is open.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Thanks for taking my questions. Can you expand on the China kind of cost initiatives? If we think about that as roughly a \$2 billion revenue pool in China, maybe two-thirds of it that's more equipment-oriented. It would seem like that the targeted savings are around 2% of that New Equipment revenue. I'm just trying to get a little bit of context around the opportunity here, and with the upward sort of revisions that we've seen in UpLift, trying to think about that \$30 million and where it could go over time.

Judith F. Marks

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

A

Yeah. Let me start, Joe. Thanks for asking the question. Listen, I think we have – and Sally and the team have really focused on really resetting our business. We have seen structural change in China, and we are structurally changing Otis to pivot and to continue our journey to move to becoming more of a Service-oriented business. And it's become more of a mature market. So, we've made this change. We announced it the first week of January, and we're working through it. And our best estimate right now is what you see in terms of run-rate as we exit the year.

We're looking at every opportunity possible. But we also want to ensure, since China is 40% of the installed base – we ended 2024 with our portfolio, again, up mid-teens for the 13th straight quarter, but we ended our portfolio with 435,000 units, which is more than twice what we started at spin. So, we've been on this journey, but that's still – if you assume that that's – for China, that's still 4% to 5% market share. So, we want to make sure that we're investing and we keep our mechanics and we keep all of the key skills we need to succeed in Service and now in the growing mod business.

Our mod orders, as you saw, were pretty strong for fourth quarter. We're really proud of them. China mod orders doubled in the quarter, and that we think is a combination of focus and also a combination of this stimulus that was introduced for refurbishment, where we estimate that we secured about 8% to 9% market share on that refurbishment's first tranche. So, again, for us, it's about tuning the organization, stripping out excess overlapping costs, and now creating a very market-driven Service and mod business.

Cristina Méndez

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

A

Yeah. And Judy, I can complement with the financials. So, the \$30 million run-rate are expected to be primarily in the New Equipment side. So, New Equipment in China in 2025, from a revenue standpoint, is going to moderate, because we expect a stabilization of the market towards the end of the year. But the margins are going to be under pressure, because we see the lower backlog flowing through, plus additionally the pricing from the backlog also flowing through. You may remember that in 2024, pricing in China was down 10%.

So, with this transformation program, we are going to right-size the organization, specifically in New Equipment, in order to adapt to the new market size. We are targeting \$20 million in-year savings that will be approximately low

to mid-teens reduction of indirect cost and 30% reduction in real estate. Now, the program is not only about right-sizing New Equipment. It's also about investing into Service, because here the opportunity is enormous.

So, Service is, as of 2024, one-third of the revenues of China. We have a small market share in Service, and we want to grow and we are going to grow. And this is on the back of consolidating the teams, the two brands will be under the same umbrella. This would allow us to increase coverage in Service. Second is consolidating also portfolio and rationalizing and being able to differentiate value and to address different customer needs, and last but not least, consolidating the agent and distribution networks. This would also help to accelerate modernization growth, as Judy has said, more than 20% targeted on an annual basis.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

That's all helpful detail. And then, just as it relates to the fourth quarter and the Service margin there and sequentially down from the third quarter, it looks like it may have come in a little shy of internal expectations. And so, any color on that Service margin and then how you think about that moving forward?

Judith F. Marks

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

A

Yeah. Let me start. Joe, what probably isn't obvious to everyone is we've made a focused investment in our Service flywheel. We talk about it a lot. But the linchpin of that is having qualified mechanics and field professionals available throughout the globe. In 2024, we added 2,000 field mechanics and field professionals, which is a skilled craft, to our prior 42,000 population. So, we increased 5% our direct field workforce.

Because this is a life-safety business, many of them come in as apprentices. They partner with experienced mechanics, and the learning curve takes time. And we may have probably underestimated the productivity of bringing on those 2,000 to drive Service, especially in the fourth quarter, but we had the cost of them. But for me, it's an absolutely critical investment in our future, so that we don't have a labor shortfall, we've got trained mechanics, and we can grow both Service and modernization. So, again, we're up to 44,000 field professionals, who every day are delivering for us, but a lot have just joined us and it's a worthwhile investment.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

[ph] Thank you – yeah (00:35:44).

Cristina Méndez

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

A

And on the sequential comparison, Joe, so you are right, it's a decline, but this is a seasonal effect that you may see. And when you look back, it was even sharper in 2023. It's because of vacation and absorption. But compared to 2023, our margin rate in Service grew 50 basis points in 2024 versus 20 basis point in 2023, and this is despite of the acceleration we have had in mod. Modernization has grown 18% in sales in Q4, much more than in the past. And because of the good performance on the field and efficiencies including UpLift, we are able to grow faster in terms of margin rate in Service compared to 2023.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks very much.

Operator: The next question comes from Rob Wertheimer with Melius Research. Your line is open.

Rob Wertheimer

Analyst, Melius Research LLC

Hi. Thank you. Judy, you mentioned the addition in the field professionals, and I'm a little bit curious if you have any thoughts on your decision process there. So, what – maybe what is your productivity trend on your existing base of field professionals? Does that sort of anticipate, as we can see in the mods, I guess, that you think you might grow above whatever that productivity – labor productivity rate would be? Maybe you have an aging workforce to deal with, and so there's some replacement there. Just thinking about your decision process as you expand that workforce.

Judith F. Marks

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

Yeah. No. Thanks, Rob. I think we were seeing challenges across the construction market in general for workforce, and for us, because this is such a skilled craft, we made the conscious decision to invest. And that investment has occurred in many markets across the globe. So, we want to be prepared. We know we're going to continue to grow our Service portfolio. We've got modernization revenue, in the outlook for 2025, growing high-single. Obviously, with the backlog, we'll try to do even better there. And you can see that just picking up year-over-year.

So, for us, we wanted to get these apprentices in and even some of the skilled journeymen who come from other companies, so that we can first fulfill the immediate maintenance and repair requirements we have. Our repair business is still up about 10% for another year. So, we have to – no one wants their elevator or escalators down. We need that field workforce. So, for us, it's a worthwhile investment. Again, I think it did have an impact on margins in fourth – or in Service margins in fourth quarter. But to me, that's a short-term issue versus the long-term capability to deliver.

Again, we do have an aging workforce, just like most industrials do. And we're up to 72,000 colleagues now, 44,000 in our field which, if you do the math, it means we've obviously reduced the indirect head count almost 1,000. So, I think we're heading in the right direction for next year, but more importantly for Otis' future, because we need to be able to fulfill the needs of our customers in the markets we serve, and in those markets, we need that workforce.

Rob Wertheimer

Analyst, Melius Research LLC

Thank you.

Operator: The next question comes from Amit Mehrotra with UBS. Your line is open.

Amit Mehrotra

Analyst, UBS Securities LLC

Thanks a lot. Judy, I think the China New Equipment market is [ph] the highest mod (00:39:19) market for the company on the New Equipment side. As you – obviously, the market's probably getting you there. But as you pivot maybe more proactively towards Service, can you just talk about the impact to New Equipment margins structurally? I know you're taking out costs and – to maybe offset some of that mix impact. But structurally, where do you expect the mix of that business to go as you kind of pivot more proactively to Service? And maybe just

related to that, the China market's obviously been this moving target. Can you just give us a sense of what's behind – or maybe what's giving you confidence that – in 2025 in terms of that 350,000 to 400,000 market?

Judith F. Marks

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

A

Yeah. No. Thanks, Amit. So, listen, on China, as we wrapped the year, ended up being 13% of total Otis revenue, which is where we kind of – we saw it going third and fourth quarter, and that's all-in. So, total China revenue versus total Otis revenue is 13%. Traditionally, as I said, with the incredible CAGR we had in China New Equipment, it did become a very high volume business with high profitability. It has become more challenging over the past three years, as prices have become more competitive. But in a deflationary environment, our team has done an amazing job to get cost out, to get material productivity and to get installation productivity.

What we want to do is take that same focus, and that's why we're modularizing – or making modernization packages. China gives us a unique opportunity in terms of both Service and mod to improve our profitability in China. First, as we grow our Service portfolio, especially through recaptures, we build density in a very large country. Again, 435,000 units as we end the year, up again mid-teens for the year. But we need the ability to continue to build density, because as you see with Otis and as you saw on chart 13, it's that density that drives our Service operating profit margin that has increased every year since spin – actually, it's increased every – 19 straight quarters since spin. So, that's what we need to take to China, and we do that through a little different lens.

As we came out of spin, we focused on growing our Service portfolio. 1% wasn't acceptable. We're now at 4%-plus. We have higher aspirations. But we have so much data available right now that we understand the value of each unit. We understand the quality contribution of each unit. And so, in China explicitly, as we focus on conversions and specifically on recaptures, we're doing it as we've done in other mature markets, placing it in a city or in a route where we can get that density and we don't have the same cost.

That's going to help us make China Service margins, which traditionally have been our lowest because of lack of density, improve to, at some point, approximate mature markets. The modernization opportunity will come at scale. And we've moved mod margins, this is the – for the full year, mod margins globally exceeded New Equipment margins, and we're going to continue, as we said, to get to at least double-digit margins for modernization over the medium-term.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Okay. That's very helpful. And just one follow-up for Cristina, if I could. So, I think the expectation is mod growth to be up high single-digit organic this year. I think orders were up low double-digits last year. They were up high-teens in the fourth quarter. Can you just talk about maybe the disconnect there and are – globally, is mod growth mix, I guess, mix positive for Service margins, is it neutral? Can you just talk about the mix impacts from that outgrowth?

Cristina Méndez

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

A

So, on the guide, Amit, you are right. So, I would say that it's a little bit of conservatism in the guide that is based on we want to see the resources ramping up. And as we have mentioned, we – in Q4, there was a good ramp-up, but we need to continue in order to be able to execute on the very strong backlog. So, this is an opportunity for the guide. We are guiding high single-digit versus 13% exiting backlog, and we can do more getting the resources.

On the mix, so within Service, modernization has lower margin compared to the repair and maintenance, although modernization margins are increasing based on the standardization of packages, supply chain and efficiencies on the field because of the standardization. And you may recall that at the beginning of the year, modernization margins overpassed New Equipment. We continue that trend and they continue being above and growing. So, gradually, the margins will get better, but it's going to be a headwind in terms of margin rate in Service, but overall, very positive dollars in terms of contribution.

Amit Mehrotra

Analyst, UBS Securities LLC

Okay. Thank you very much. Appreciate it.

Operator: Your next question comes from Nigel Coe with Wolfe Research. Your line is open.

Nigel Coe

Analyst, Wolfe Research LLC

Oh, thanks. Good morning, everyone. I just wanted to follow up on that mods question. Obviously, improving mod margins has been a big initiative. So, where do we expect mod margins to be in 2025 versus 2024? And I know that they were running low single-digits. I think they're on a track towards mid-singles-plus. And then, just maybe talk about the cost savings that you've got coming through on both of the programs. You've disclosed the total impact in 2025. But just curious where those land between Equipment, Services and perhaps Corporate. Thanks.

Judith F. Marks

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

Yeah. So, on mod margins, as we said, we – now four quarters in a row, full year, we surpassed New Equipment margins, Nigel, which – so, obviously higher than the New Equipment annual margin for 2024. So, a little above mid-single, heading towards high, which has been our objective, and again, heading towards double-digit. And our teams responded well. Again, all part of our strategy to not just drive mod revenue, but then have that mod feed back into the portfolio. Cristina?

Cristina Méndez

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

Yeah. On the savings, so in 2025, we are expecting to generate \$20 million in China coming from the transformation program. This is going to be all in New Equipment and will help to compensate the headwinds that we see in the price from the backlog. And UpLift will be – we have raised the total program target. It's going to be \$200 million now. We exited 2024 with \$120 million run-rate, and we expect around \$70 million in-year savings in 2025. Approximately 65% of that will be in Service. 35% remaining in New Equipment with a very small piece in Corporate. And when you look at our Service growth in the guide, it's approximately [ph] \$180 million DTY (00:46:41), and out of that, you deduct the \$40 million coming from the UpLift savings, you can see that there is still a very positive growth coming from operational performance.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Thanks, [ph] Cristina. Maybe just as well if you'd just (00:46:54) talk about the \$250 million of restructuring that I think is sort of the total bucket that's on page 26. Just want to understand – that's a big number. Just want to understand that.

Cristina Méndez

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

Yeah.

A

Nigel Coe

Analyst, Wolfe Research LLC

But maybe – could you just maybe just expand on the Service guide? The 24.5% exit rate in 4Q, we normally have richer margins in the second half of the year. Just wondering how we think about Service margin expansion in the first half of the year [ph] just because I think the (00:47:22) comps are quite tough there.

Q

Cristina Méndez

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

Yeah. So, with restructuring, we are guiding approximately \$250 million. It's a big number because we are finalizing the UpLift program. So, we will achieve the \$200 million run-rate by the end of 2025. Year-to-date, end of 2024, we have spent approximately [ph] \$140 million (00:47:42) restructuring. So, the remaining up to the \$300 million cost to achieve in the program are to be spent in 2025. And in addition to that, you have \$40 million restructuring from the China transformation. So, it's going to be a very intense year in terms of restructuring in order to end up the year in a very good position from our cost base with all of the cost we are going to move out.

A

Judith F. Marks

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

Yeah. And we think, Nigel, this aligns nicely. I've called this the year of transformation for Otis in 2025. We've been in UpLift. We've done the process definition. We've done the organization design. We've implemented and announced, and now we're making it happen across the globe in 2025. We're moving to our [ph] global business, Services (00:48:29) activity as well. So, there's cost to be had, but we're going to go through this transformation and simultaneously deliver with excellence operationally, as you see with the margin expansion, driven off our Service business and following our strategy. Where we think that puts us is in a really stronger position for 2026 when this is all run-rate – we have the run-rate benefit, but more importantly, we're focused on our customers.

A

And we've seen it's been a nice bounce-back in North America, actually all of the Americas in terms of orders. In our EMEA business, couldn't be more pleased. We are outperforming the market even in Northern Europe, but we are outperforming the market not just in orders but in our revenue and across the board. And our Asia Pacific business just had a fantastic 2024 in every metric possible. So, as the markets come nicely as we kind of get to second half of 2025 and 2026, Otis is positioned. We've got the cost structure we want. We got the customer centricity we want. We have the workforce we want, which is why we made that investment. We have the strategy to execute, and I really think it's setting up nicely for later 2025 and 2026.

Nigel Coe

Analyst, Wolfe Research LLC

Great. Thanks, Judy.

Q

Operator: The next question comes from Julian Mitchell with Barclays. Your line is open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Maybe first, just wanted to follow up. I think, Cristina, you talked about flattish sort of EPS in the first half and then a stronger second half. So, just wanted to follow up on that. Is the driver there in the first half kind of organic sales flat to up slightly, just because of the New Equipment declines, and then operating margins up very slightly, just because you have that New Equipment margin decline being pretty steep? And then, I guess FX is a bigger first half headwind than second half. Kind of maybe just flesh out that a little bit, please.

Cristina Méndez

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

A

Yeah. So, yeah, it's broadly as you have described. So, Service is going to be very level-loaded. Service will continue growing on the top line mid single-digit on the back of the portfolio growth, plus modernization execution, and the margin expansion is also going to come gradually. On the other side, New Equipment first half of the year is going to be challenged. You'll recall that it's not only the [ph] existing (00:51:15) portfolio. We also have a tougher compare because, for example, Americas started increasing orders in the second half of the year. So, it's going to be a period until we execute this lower backlog and we also reflect the impacts from price. And in the second half of the year, we expect the flow through of all of the transformation initiatives into margin. That's why EPS is broadly flat in the first half and a strong increase in the second half. And FX is also going to impact because of a tougher compare in the first half of the year.

Judith F. Marks

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

A

Yeah. And as we shared, the FX spot rates, it was the best we know to start the year. We shared that with you. We put that on the chart. We will update you every quarter. And if non-US currencies get stronger, you'll see that flow through. In the appendix, you'll see that 30% of our 2024 revenue was in US dollars and 70% in other currencies.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's great. Thank you. And then, just my follow-up is on the New Equipment sort of backlog outlook. So, I think New Equipment backlog at constant currency was down mid single-digits in Q4, with sort of full year New Equipment orders down high single-digits for the year. As we look to this year ahead, based on your comments around China stabilizing later in the year and orders recovery in the Americas and EMEA, should we expect that New Equipment backlog or RPO to be up exiting 2025? Is that kind of the core assumption informing the various cost savings programs and so forth that you've laid out today?

Judith F. Marks

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

A

Julian, our New Equipment backlog is down 4%. The Americas backlog is down mid-single. They had a tremendous revenue year in 2024. So, they drove a lot of deliveries, a lot of shipments and a lot of installations out of our Florence factory. And their orders coming in second half of 2024, Americas is our longest lead time for conversion to revenue there.

EMEA backlog is solid and actually up nicely, almost double-digit (sic) [mid-single] (00:53:48), and AP is up low-teens. So, we have this blend going on in backlog, with China obviously being down, that we will be working through. And again, we're encouraged by the New Equipment market segments being up in three of our four markets. Unfortunately, they're not the book and ship markets as much. And so, we'll go from there.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Got it. But the sort of China stabilization later in the year, Judy...

[indiscernible] (00:54:22)

Judith F. Marks

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

Yeah. Let me just – wait, let – Julian, let me just correct myself. EMEA is up, let's say, mid-single for backlog.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Got it. Thank you. And just wanted to follow up very quickly, Judy, on the China stabilization later in the year. That's based on sort of any assumptions around – when you look at sort of conversation with property developers or expected stimulus moves, any sort of fleshing out of that China kind of stable assumption for the out-years?

Judith F. Marks

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

Yeah. So, no new stimulus is assumed in that. But it is coming from discussions with a lot of state-owned enterprises, a lot of local party officials, because this has now transitioned to a local ownership challenge and a local economic challenge for the local governments. So, in all of those discussions that we're having, there is this feeling that from the stimulus activities we saw in 2024, which were multiple, but haven't really yet changed sentiment with the buyers – we'll see what happens now with the Chinese New Year this week and the lunar holiday that's happening as we speak in terms of real estate, which tends to happen this time of year. There is a general feeling we are getting that gives us more confidence to believe that that is when we will hit that stable foundation point that I said between 350,000 and 400,000 New Equipment units going forward.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Great. Thank you.

Operator: Next question comes from Jeff Sprague with Vertical Research. Your line is open.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Thank you. Good morning, everyone.

Judith F. Marks

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

Yes.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Judy, I just want to drill a little bit more into China Service, which is obviously important part of the call here today. Can you just address China conversion? I see you shared the 51% with us in the slides. You got global at 66%.

So, I think that kind of means ex-China, you're running 90%-ish sort of conversion. Maybe just kind of speak to the dynamics behind the conversion rate in China, what you're working on or what you shared with us today, might improve that conversion rate.

Judith F. Marks

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

A

Yeah. Jeff, the conversion rate ex-China is approximately where you said it was. So, the rest of the world on average is close to 90%. We have some markets where we're getting close to 100% and others that are just a little under 90%. So, I would say average, that's the right metric for you to use. China conversions, I think we've done a lot to make the conversions happen more efficiently, more effectively, and where we want them to in terms of location and density. We do that because more than half of our China portfolio is connected. We are shipping all of our units with Otis ONE on them, and that creates the stickiness for conversions.

So, we've got the technology there. We've got the relationships there. But now that we've – we're still a dual brand, as Cristina mentioned. We still have two brands, but we don't have two independent businesses operating. So, our Service workforce, as they come, take over during the warranty period. They'll get to know Otis and they'll get to know – we'll have greater coverage because we won't be one brand of coverage versus another independent brand of coverage. That's going to give us what we think is increased stickiness for post-warranty for that conversion, as just one example.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And then, maybe similar just on retention. Maybe this is a function of the softer China. But I think it's drifted down a little bit. I had like 94% in 2022 and 93.5% in 2023, and I think we're at 92.5% here now. Just kind of what's going on that? Is that China? Is it something else kind of pressuring the retention rate a little bit?

Judith F. Marks

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

A

Yeah. It's interesting, because we focus – we certainly focus on retention rate, and you've heard me say before, we have the leading retention rate across our industry, but we want to continue to improve that. As I mentioned in one of my other answers though, we're using data more effectively and more efficiently to understand what every unit contributes in our Service portfolio.

So, now it's not all about rates. It's not all about 4.2% portfolio growth. It's about having the most profitable growing portfolio we can. So, using that, I would tell you going from 93.5% or so to 92.4%, some of that is involuntary. Obviously, we have customers who are not thrilled at times with our performance or for other reasons decide to change. But some of that's not voluntary.

And so, we are working through our portfolio, and what Cristina and I have tried to make sure the team does is even if that retention rate is going down, we're getting higher quality in the portfolio, higher profit dollars, and we're also making sure that we're net-neutral on our net churn, so that the conversions then become the portfolio growth. So, if you noticed in the back-up, we are neutral on net churn even though the retention rate went down. So, we're going to have a higher quality contributing portfolio, and then I do believe you'll see the retention rate go up again.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thanks for that color. And then, just one other quick one. Just on China, what are you thinking for New Equipment price in 2025? I think you gave us just the [ph] volume in outlook (01:00:25).

Cristina Méndez

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

A

Yeah. We expect price with cost being roughly neutral. So, that would mean maybe a few points of price decline, but we will compensate with regular cost-out.

Judith F. Marks

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

A

Yeah. And we're already seeing – we've got about 40% of our commodities locked globally. But in China, with the deflationary and steel, we're locking in as much as we can, still coming up with other engineering and material productivity. Our teams are working around the clock to get the cost side down as they have every year.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thank you for all those details.

Operator: The next question comes from Steve Tusa with JPMorgan. Your line is open.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning.

Judith F. Marks

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

A

Hey, Steve.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Most of the questions have been asked. But just on the New Equipment orders, I think you said it was a – was there like a 15% difference between the total and the total ex-China? [ph] Is that the way it goes (01:01:25) from negative 4% to positive 11%, I think you said, ex-China?

Judith F. Marks

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

A

Yes. Yes.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

So, I mean, I don't know what percentage of orders China was in 4Q of last year. I know your revenue base is 25%. But I mean, that implies if you just used the 25%, that China orders are down like, I don't know, 50%-plus. Like it's a pretty big hit – adjustment for China. Am I right on those numbers?

Judith F. Marks

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

Yeah. I wouldn't go that – I think you're a little too high, but you're not far off. Yeah, we...

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

So, I guess how do we – so, how do we reconcile that with like a 10% – a view of next year down 10%? I don't know what like the annual – ultimately the kind of the annual was. But like is your backlog still – do you have enough backlog to be like super confident in that 10% today or are you kind of getting towards the end of the year a little bit more hand-to-mouth, because these are some – obviously, it's not a huge part of your business anymore profit-wise, but some pretty significant declines, obviously?

Q

Judith F. Marks

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

Yeah. So, our traditional China business was about two-thirds backlog coming into a year and a third book and ship. So, that's – your term hand and mouth, my term book and ship.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right, right. Sorry.

Q

Judith F. Marks

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

That's okay. That's okay. We're talking similar language here. So – and that's not – we did not see that materialize in the third or especially the fourth quarter. So, we're going to keep watching it. We believe the year ended 2024 for the segment – New Equipment segment in China at 420,000 units, and we believe it's going to be down another 10%. And that's why I think it's going to end between 350,000 and 400,000 and stabilize there.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay, great. But I guess I'm just wondering, how – like it doesn't seem like that's – like you've got a ton of visibility on that, given how we're kind of entering the year. It seems like...

Q

Judith F. Marks

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

Yeah. Actually, we...

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...a bit lower than average visibility.

Q

Judith F. Marks

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

Yeah. I'd say it's similar visibility to last year. Although we started, we thought it was going to – it came in worse. The fourth quarter actually, the segment came in down 20%. So, the year came in down 15%, because it did –

A

none of the stimulus really helped New Equipment per se. But actually, we have similar visibility going into this year, and we've already seen the January results because our team's off right now for the Chinese New Year. So, I think we've got pretty good line of sight.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay, great. Thanks for the color. Appreciate it.

Judith F. Marks

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

Thanks, Steve.

Operator: The next question comes from Chris Snyder with Morgan Stanley. Your line is open.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thanks. I'll try to combine my questions here in effort of time. I wanted to ask about the Americas business. So, last quarter, we saw a sharp positive rate of change on the year-on-year order growth for Americas, but it seemed like it was mostly a function of comps. So, I guess my questions are, one, are Americas orders going higher in absolute terms or is this still primarily a function of comps? And I understand – I guess and then why do you guys believe the Americas market will be up low-singles next year, but your New Equipment business in the Americas will be down low-singles? I know orders convert slowly to revenue in the Americas. But I didn't know if you guys are different from the broader industry in that regard. Thank you.

Judith F. Marks

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

Yeah. I don't think – let me answer your second one. I don't think we're different from the broader industry. For four quarters before – for second half of 2023 and first half of 2024, the Americas orders were down significantly and understandably with what was happening in the economy, interest rates going up and developers just not making those decisions. We started seeing some of those green shoots happen late in the second quarter, which led to a positive third quarter, and then the fourth quarter, we were up 14% in New Equipment orders. And I believe that was more than a compare. Cristina?

Cristina Méndez

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

[indiscernible] (01:05:29) comment on that. So, sequentially, we have been growing New Equipment orders in absolute dollars every quarter in 2024, including Q4. So, there was also a good ramp-up Q4 compared to Q3.

Judith F. Marks

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

Yeah. But we are – I'd tell you, Chris, we are seeing – and again, this is whether – you could look at ABI and be very pessimistic. ABI to us tends to lag even up to 18 months as an indicator for us. The Dodge Construction Index looks positive, and it is positive. The construction activity is picking up. The proposal activity is strong. Our ability to convert has been very strong. We've got line of sight for 18 months now in our Americas backlog.

The reason – even though the segment's up and our backlog's down – or our 2025 looks down low single-digit is because we had such a strong revenue year, working through backlog, and our Americas team deserves a ton of credit, in 2024. We'll refill that, but it is – with permitting, with all the other challenges, Americas jobs – even the volume jobs just take longer from order to full revenue recognition.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you.

Q

Operator: The next question comes from the line of Nick Housden with RBC. Your line is open.

Nick Housden

Analyst, RBC Capital Markets

Yes. Hi, everyone. Thanks for taking my question. I'll just ask one. If we think about the 4.2% growth in the installed base, is it possible to break this down into New Equipment conversions, retention and recapture, and then also mod conversions? Because I mean, my sense is that, in the past two, three years, mod conversion is probably becoming the biggest feeder of the portfolio as that business gets bigger and New Equipment is declining. So, I'm just curious if you can maybe quantify that, please.

Q

Judith F. Marks

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

Yeah, Nick. So, on mod conversions, there's two types of mods. There's an on-portfolio mod and there's an off-portfolio mod. An on-portfolio modernization or refurbishment is one where we already have it in our Service portfolio. And so, we get the modernization. We tend to get it in a less competitive environment, because we've been cultivating, working with the customer, helping them financially plan for this with their capital planners, and we get those. So, those are almost net-neutral when you think about the fact that they're already on our portfolio. So, I just want to make sure you understand.

A

But off-portfolio mods that we can bring back something that's not in our maintenance today, do the modernization and then convert it, that becomes an incremental portfolio upside. So, kind of one is almost retention and the other is truly a new portfolio add. So, I know – and I'm really – I'm excited about the mod market. I hope you know that. We purposely added a strategic imperative. We focused the company on it across the board from sales to moving this into our manufacturing plants. We're trying to get the supply chain – we are driving these packages on the supply chain activity and savings, and we will grow significantly in mod.

But a portion of that will be mod from our own portfolio. So, that's kind of protect versus new growth. So, I just – as you think about that, I just want to add that dimension, because I'm not sure we've discussed that before. Right now, we have not broken out yet where mod comes into the 4.2%. But I would tell you off-portfolio mod would be a very small portion to-date of that 4.2%, very small. So, this is all still Service conversion, recapture, retention with a very small mod. That mod off-portfolio is going to grow significantly over time, and we'll try and provide at least color on how that's growing as we go forward.

Nick Housden

Analyst, RBC Capital Markets

That's really helpful. Thanks very much.

Q

Operator: Your final question comes from the line of Miguel Borrega with BNP Paribas. Your line is open.

Miguel Borrega

Analyst, BNP Paribas SA (London Branch)

Hi. Good morning, everyone. Thanks for taking my questions. I just have one last question. I wanted your views around the modernization market in China and whether this market could become increasingly competitive over the years to come. In other words, why wouldn't we see the same kind of price pressure in mods as we've seen in New Equipment? Thank you very much.

Judith F. Marks

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

Yeah. Thanks, Miguel. I think it actually ties nicely into my last conversation, which is if you have the customer relationship and you can be on your own portfolio, you have a higher probability of a potential sole source award for modernization, because you're crafting it. When it's off-portfolio, just like anywhere in the world, it'll be competitive. I think the biggest difference in China to-date is we don't see the multitude of independent service providers. They have such a large service portfolio. I mean, 40% of the installed base. It's still growing. 400,000 – 500,000 units a year are converting out of New Equipment at the segment level into Service in China. There is ample service work for ISPs in China. So, we don't see them really trying to penetrate the modernization market at any level.

Modernization takes construction skills. It takes different skills than just repairing and maintaining elevators, because you have to pull a unit out. There's no general contractor. You do it all as the modernization provider. So, while we see some large ISPs in some parts of the mature markets doing that, it's not a large number, and in China, it's a very small number. So, will it get competitive with the larger OEMs? Potentially. Will it be a large market to serve? Yes. Should we get good pricing on our own portfolio? Yes, which is why – another reason why we want to grow our China Service portfolio as rapidly as possible and have been focused and have a strategy to do that.

But we've already moved modernization packages into our New Equipment factories in China. And just as we're procuring parts for New Equipment for a Gen3 or a Gen360, we're doing the same for a Gen3 mod. It's the same equipment. It's the same machine. So, we're getting those – we're getting that supply quantity of scale. We're getting everything. And now, in China, because it will be so large, we are going to have really mod installation teams that will be going from installation to installation. So, the installation efficiency will be very cost-effective as well. So, everything that worked at scale in New Equipment on the cost side in China will be what we leverage for mod.

Miguel Borrega

Analyst, BNP Paribas SA (London Branch)

Super helpful. Thank you very much.

Judith F. Marks

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

You bet.

Operator: This concludes – sorry. This concludes the Q&A session. I will now turn to Judy Marks for closing remarks.

Judith F. Marks

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

Well, thank you, Sarah. Listen, 2024 was a year of Service strength and strategic resiliency for Otis. We enter 2025 with confidence in our long-term strategy and certain of our ability to provide value for our customers, colleagues and shareholders. I hope everyone stays safe and well. Thank you for joining us today.

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

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