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Otis Worldwide Corp. (OTIS)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' First Quarter 2025 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 the call over to Rob Quartaro, Vice President of Investor Relations. Please go ahead.

Robert Quartaro

Vice President-Investor Relations, Otis Worldwide Corp.

Thank you, JL. Welcome to Otis' first quarter 2025 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 call over – 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 everyone listening is safe and well. Before discussing our results, I'd like to take a moment to recognize an important milestone. Earlier this month, Otis celebrated our fifth anniversary since returning as an independent public company. The last five years have been challenging and rewarding, and I'm proud of our colleagues and our many accomplishments.

Five years ago, when we were completing our spin-off, the world was in the midst of a global pandemic. While the pandemic posed many challenges, it also provided an opportunity to demonstrate the impact of our strategy, the resilience of our business, and the commitment of our colleagues to serving our customers and continuous improvement.

We have made tremendous progress since those early days and our shareholders have been rewarded. Since 2019, we've expanded adjusted operating profit margins by 220 basis points and grown adjusted EPS over 70%. We've more than doubled our dividend and together with share repurchases, we have returned $6 billion of capital to our shareholders. I'm proud of our achievements over the last five years and thankful for our 72,000 colleagues who demonstrate our absolutes each and every day. We've laid a strong foundation and I couldn't be more excited about the future opportunities ahead of us.

Turning to Q1 highlights on slide 3, Otis started the year with a solid first quarter driven by the resilience and strength of our Service driven business model. First quarter organic sales were flat, as strength in Service was offset by a decline in New Equipment. Service organic sales grew 4% with growth across all business lines. Modernization orders increased 12%, and we ended the quarter with a backlog up 14% at constant currency.

Our maintenance portfolio continued to grow 4% while we also drove 40 basis points of adjusted operating margin expansion compared to the prior year. Solid growth in Service coupled with margin expansion enabled us to grow adjusted EPS 5% in the quarter. We generated $186 million in adjusted free cash flow and completed approximately $250 million in share repurchases. And yesterday, we announced an 8% increase in our dividend, which brings our cumulative dividend increase since spin to approximately 110%.

During the quarter, we were honored to be recognized by Fortune as one of the world's most admired companies and to be named to Wall Street Journal's Best-Managed Companies list. These prestigious recognitions reflect our colleagues commitment to serving our customers and living our absolutes every day.

Turning to our orders performance on slide 4. New Equipment and modernization combined orders grew 2%, driven by strength and modernization. The combined backlog was relatively flat sequential improvement from the fourth quarter. Our total backlog, including maintenance and repair, remains at historically high levels and positions us well for future quarters. New Equipment orders declined 1% in the quarter. Americas continued its strong orders performance from the second half of 2024, growing mid-teens in the first quarter. This was driven by mid-teens growth in North America and greater than 20% growth in Latin America.

Demand in Asia Pacific also remains robust, with orders growth greater than 20%, primarily driven by India and Southeast Asia. This strength was offset by continued weakness in China, where orders declined greater than 20%. This was in line with our expectations and we continue to expect the New Equipment market to stabilize later this year. New Equipment orders in EMEA were down mid-single digits, partially due to a tough compare with declines in Europe offsetting strength in the Middle East. Our New Equipment backlog at constant currency was down 3% versus the prior year, although excluding China it was up mid-single digits.

Modernization orders grew 12% and our quarter end backlog increased 14% at constant currency. Order growth was widespread with China a notable standout growing orders greater than 20%. We are just at the beginning of a projected multi-year growth cycle globally in modernizations driven by aging of the 22 million global unit installed base. With 8 million units already in the prime modernization age and that number forecasted to grow mid-to-high single digits for several years, we see a significant opportunity ahead in all four regions.

Our Service portfolio grew 4% with growth across all of our regions. China grew low teens, Asia Pacific grew mid-single digits and EMEA and Americas grew low single digits. Before moving to financial results, I'd like to highlight several exciting projects from the first quarter. In the Americas, one of our standout projects is the modernization of the three elevators that are expected to provide safer and more reliable transportation to over 600,000 annual visitors to the iconic Christ the Redeemer in Rio de Janeiro, Brazil. Our commitment to safety and excellence will enhance the visitor experience while preserving the monument's legacy.

In Stockholm, Sweden, Otis is embarking on an exciting project to modernize 29 escalators for A-Train, the operator of the Arlanda Express Rail Link. The vital connection links Stockholm City Center to Arlanda Airport. The project will revitalize escalators initially installed by Otis in the late 1990s, bringing them to modern standards. Modernization was both an efficient and sustainable choice for this customer, as Otis can enhance performance while minimizing disruption for passengers in this essential link for the Swedish capital.

We continue to excel in the New Equipment business by demonstrating our strong performance and reliability. Otis has once again been selected by China's Hangzhou Metro to supply 145 escalators and 26 IoT connected elevators for the new Line 3. This addition brings the total number of Otis units in the city's metro network to over 1,700 across nine subway lines. And in India, Otis has proudly secured a landmark contract to supply over 470 elevators and escalators to the Prestige Group spanning five major cities. The project includes 28 double deck elevators and high speed elevators designed for what will be India's tallest commercial tower.

Turning to our first quarter results on slide 5. Otis delivered net sales of $3.3 billion, with organic sales flat year-over-year. Adjusted operating profit, excluding a $16 million foreign exchange headwind, increased 3% with growth in Service, offset by a decline in New Equipment. Adjusted operating profit margin expanded 40 basis points to 16.7%. Adjusted EPS grew 5% or $0.04 in the quarter with solid operational performance and the benefit of a lower share count.

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

Cristina Méndez

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

Thank you, Judy. Starting with Service on slide 6. Service organic sales grew 4% with growth in all lines of business. Maintenance and repair organic sales grew 3%, driven by portfolio growth. Positive price of 2% in maintenance, partially offset by mix and churn. Repair growth was muted in the first quarter at low single digits due to timing of backlog execution. We expect acceleration in the balance of the year. Modernization organic sales grew 10% as we executed on our backlog. Growth was broad-based across all regions, including high teens growth in China and approximately 10% growth in Americas.

Service operating profit of $537 million increased $29 million at constant currency with higher volume, favorable pricing and productivity including the benefits from UpLift more than offsetting higher labor and material cost and mix and churn. Operating profit margins expanded 40 basis points to 24.6% in the quarter.

Turning to New Equipment on slide 7. New Equipment organic sales declined 7% in the quarter as the strength in EMEA and APAC were more than offset by declines in China and Americas. EMEA sales grew mid-single digits, primarily due to strength in the Middle East, which grew greater than 20%, while Europe was up low single digits. APAC grew approximately 10% with a strength across most of the region.

Americas declined high-single digits as we work through last year's backlog. And lastly, we are continuing to work through China's lower backlog with organic sales down greater than 20% in the quarter due to market conditions and a strict credit control in shipments. However, as Judy mentioned, we continue to expect the market to stabilize later this year with Service stabilization to follow in 2026.

New Equipment operating profit of $66 million declined $5 million at actual currency and $4 million at constant currency, driven by the headwinds of lower volume and regional mix that were partially offset by productivity, including the benefits from UpLift and our China transformation and lower commodity cost. Pricing was relatively flat. Operating profit margins increased 20 basis points to 5.7%.

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

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

Starting on slide 8 with the market outlook. Before discussing our updated 2025 outlook, I'd like to briefly discuss our global market expectations. In aggregate, our view is unchanged. We continue to expect global New Equipment units to decline mid-single digits for the year. We have reduced our expectations for the Americas to down low-single digits as uncertainty around global trade policies may cause project delays.

In EMEA, our outlook is unchanged with expected low-single digit growth. Asia is expected to decline mid-to-high single digits, driven by mid-single digit growth in Asia Pacific and an approximately 10% decline in China. As we previously mentioned, we continue to expect stabilization in late 2025.

Turning to Service. Last year, the global installed base grew mid-single digits, reaching approximately 22 million units at year end. We anticipate this trend will continue with mid-single digit growth in the installed base this year. We have good visibility into this growth given the installed base is driven by units sold approximately two years ago.

By region, we expect Americas and EMEA to grow low-single digits and Asia to grow mid-single digits. Taken together, we expect the global installed base to reach approximately 23 million units at the end of 2025. Turning to our financial outlook for 2025, we expect net sales of $14.6 billion to $14.8 billion, which is an increase of approximately $450 million at the midpoint from our original guide, driven by favorable exchange rates.

Adjusted operating profit is anticipated to remain between $2.4 billion and $2.5 billion, up $105 million to $135 million on a constant currency basis, excluding the impact of incremental US tariffs imposed in 2025. The majority of this impact is due to tariffs on products and components imported from China. Note that the impact of these tariffs is offset by more favorable foreign exchange rates at today's levels.

It's important to highlight that our Service business, which represents approximately 90% of our segment operating income, is largely insulated from the impact of tariffs. However, given the current tariff rates, we anticipate that our New Equipment business will be adversely impacted. As you know, Otis primarily sources and manufactures locally through our 17 factories around the world.

Our factory in Florence, South Carolina, primarily serves our operations in the US and Canada. For some components, however, there are no local suppliers, and we source parts from suppliers based in China. In addition, we import some lower volume products to the US. These lower volume products represented well below 1% of our total units sold in 2024.

That said, if tariffs on our Chinese imports continue at current levels for the remainder of the year, we expect a negative impact of approximately $45 million to $75 million to our operating profit in 2025 inclusive of our mitigation efforts. These mitigation efforts include customer and supply chain negotiations as well as supply chain shifts to more favorable sources.

It's important to note that we expect this impact to be temporary, as our exposure is primarily through our existing backlog. For our new orders, we have adjusted contract terms and pricing. Furthermore, our global manufacturing footprint and standard product platforms give us the flexibility to shift production and adapt to the most cost effective model going forward. Please refer to slide 15 in the Appendix for additional details on tariffs.

Turning back to our outlook. We continue to expect adjusted free cash flow of approximately $1.6 billion, which we will primarily return to our shareholders through dividends and share repurchases. As a reminder, yesterday, we announced an 8% increase in our dividend, bringing our cumulative dividend increases since spin to approximately 110%. Our share repurchase target for 2025 is unchanged at $800 million. Note that we completed approximately $250 million of share repurchases in the first quarter and we may continue to frontload our repurchases earlier in the year.

I will now pass it back to Cristina to review the 2025 outlook in more detail.

Cristina Méndez

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

Thank you, Judy. Moving to our organic sales outlook on slide 9, we continue to expect organic sales growth of 2% to 4%, driven by a strong performance in our Service segment. Our New Equipment organic sales growth outlook remains down 1% to 4%. However, we have refined our outlook by region.

We now expect Americas to decline mid-single digits as we see project delays due to uncertainty around global trade policies. EMEA is expected to grow mid-single digits on the back of a strong orders at ending backlog in 2024. Asia is expected to decline mid-single digits. And within Asia, we continue to anticipate a strong growth in Asia Pacific offset by declines in China.

Service organic sales are expected to increase 5% to 7% for the year. We have expanded the low end of this range, given softer than expected repair execution in the first quarter. However, we expect repair to reaccelerate later in the year. We continue to target mid-single digit growth in maintenance and repair, driven by portfolio growth and pricing, partially offset by mix and churn. And we have increased our expectations for modernization organic sales, which have now expected to grow low teens, driven by backlog execution through the year.

Moving to slide 10, we have been transforming the way we work for nearly two years, beginning with UpLift, which we announced in 2023. We made this bold decision from a position of strength as we saw an opportunity to unlock untapped value. And earlier this year, we began our China transformation program. We have made significant progress with both projects, and we remain well on track. Through these initiatives, we are driving process efficiencies and enabling our field organization to better focus on serving our customers.

In China, our transformation is positioning us to capture the large Service and modernization opportunities while rightsizing our New Equipment operations from the current environment. Taken together, we expect UpLift and our China transformation to provide a competitive cost structure and drive sustainable earnings growth. We continue to target $90 million of in-year savings in 2025 and $230 million of annual run rate savings by the end of the year.

Turning to slide 11. Despite of macroeconomic uncertainty, we expect another year of solid profit and adjusted EPS growth, which is unchanged from our prior guide, driven by the strength and the resiliency of our Service driven business. On a constant currency basis and excluding the impact of tariffs, we expect adjusted operating profit to grow $105 million to $135 million fueled by our Service business. On an organic – on an actual currency basis, including the impact of tariffs, we expect adjusted operating profit to grow $55 million to $105 million, unchanged from our prior guide as the impact from tariffs is fully mitigated by foreign exchange rates.

Margin expansion is expected to be 50 basis points, excluding the impact of incremental 2025 tariffs. Including tariffs, we expect margin expansion to be more muted at 10 basis points due to contraction in New Equipment margins. On the other side, we expect Service margins to continue expanding as this segment is largely unaffected by tariffs. Our adjusted free cash flow and share buyback outlook remains unchanged, with free cash flow at approximately $1.6 billion and approximately $800 million of share repurchases.

Moving to 2025 EPS bridge on slide 12. Our adjusted EPS outlook for the year is $4 per share to $4.10 per share. At the midpoint, this includes approximately $0.24 from operational growth, $0.05 of tailwinds from foreign exchange rates and a net $0.05 benefit from lower share count and higher interest. These are partially offset by a negative $0.12 from the incremental 2025 tariffs currently in place. While our overall financial metrics for the year remain generally consistent with our prior outlook, we acknowledge that the economic conditions remain uncertain, including the impact of foreign exchange rates and tariffs.

On the operational side, we have delivered the strong first quarter and our outlook remains positive, mainly driven by the Service business. We have taken a conservative approach and we have recalibrated our operational outlook given muted repair growth in the first quarter and the macroeconomic uncertainty that may impact demand. We remain confident in our Service flywheel model and as we have previously said, we are investing savings from UpLift into the business to drive Service excellence and to accelerate growth.

On the New Equipment side, we continue to work on transformation to adapt our cost structure to market conditions and at the same time we are executing our backlog with headwinds from price on volumes in China. Regarding our adjusted EPS guidance through the year, we continue to expect the first half to be flat year-over-year with a stronger growth in the second half.

Maintenance results should remain relatively consistent through the year, including improved repair sales. Adjusted EPS growth should step up in the second half due to execution of our modernization backlog, realization of cost savings from UpLift and China transformation initiatives and improving trends in China and Americas New Equipment.

With that, I will ask JL 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 Jeff Sprague of Vertical Research. Your line is open.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, everyone.

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

A

Good morning, Jeff.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Well, Judy, five years already. Can't believe it. Time flies. Good work here.

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

A

Thanks.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Just back on the tariffs. I'm sorry, is that a gross or – it sounds like you're giving us a net number, net of your kind of counteractions. Can you give us a sense of what the gross headwind is that you're working against?

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

A

Yeah. So, Jeff, this is Cristina. I can give you some color on the tariff impacts we are considering in the guide. So on a broadly speaking, tariffs are not impacting our Service business because the impact is coming from material purchases. So when we look into US, US buys [ph] $550 million (00:25:09) of material purchases per annum. This is approximately 12% of the material purchases in the group. Out of that figure, $100 million comes from China purchases, another $100 million from Rest of the World, and the remaining is domestic purchases.

So as you know, China is impacted with two kinds of tariffs. We have reciprocal that is 125% on top of the original 20% that were imposed at the beginning of the year. And Section 232, that is 25% for steel and aluminum on top of the 20%. So we calculate the annualized impact of China tariffs to be around $90 million. And Rest of the World at the moment is 10%. Canada and Mexico are mostly under USMCA and this is around $10 million impact for us. So $100 million annualized.

In terms of mitigation, we are working on many levers. We are working on supply chain, alternative sourcing. And we are also introducing commercial languages in our contracts in order to protect for the new orders that we are taking. So it's more the time of executing the backlog. So out of $100 million excluding commercial, we expect to mitigate half and the other half will be mitigated through commercial.

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

A

Yeah. Jeff, let me just add, just a little more color on that just so you understand. We really experienced almost de minimis tariffs in the first quarter. And we know by project and by supplier when to expect things to enter the port. We're managing this job by job.

So second through fourth quarter won't be identical. So you can't just kind of divide the $60 million by three. And are watching this job by job in case there are changes to the tariffs to ensure we don't end up paying tariffs that are then eventually brought down. So it's a really disciplined approach because it's not a lot of supply that's coming in from China and we're monitoring it job by job.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And are you just assuming you can't or by contractually you can't reprice backlog? Or are there some counteractions that you are taking there that maybe you're not counting on yet in the guidance? So just what's your degrees of freedom on the adjusting the backlog?

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

A

Yeah. Listen, I think commercially we're having discussions, as you can imagine, with many of our major customers and our key accounts who understand the costs going up for us. And we've seen some flexibility in scheduling and some early gains, but it's too early to count on any of that. So we wanted to be able to provide what we think is the most realistic estimate with the tariffs we know today. Again, as Cristina said, they're covered in our outlook. And if any of them can be reduced, that'll drop through.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Right. Thank you. Good luck with that.

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

A

Thanks.

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

Amit Mehrotra
Analyst, UBS Securities LLC

Q

Thanks, operator. Morning, everybody. Just a quick follow-up on tariffs. Some of the pricing actions or commercial actions you're taking, are those in the form of surcharges or actual repricing? Just so I understand maybe how sticky it could be depending on what happens with respect to tariffs? And then just related to that, are you seeing any impact at the local level in China in terms of retaliation against US companies, any negative impact or any targeting of US companies given the tension?

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

A

Yeah. Let me answer the second one first, Amit. Thanks for the questions. And the answer is we are not seeing any over targeting certainly of Otis at this point in time. And we watch that closely. We continue to watch that closely and develop – continue to develop relations at all levels of the government. And I was over there in March and actually was part of the meeting with President Xi and the China Development Forum as well as many party secretaries. So they understand how local we are and we are local for local.

In terms of the commercial actions, we have increased our prices. And we do that regularly as we watch economic factors where tariffs is just one of those. So we've increased our prices not just in New Equipment, but on our spare parts that are part of our maintenance and repair line of business as well as modernization. So there's not a specific – so that's all going forward. It's what Jeff asked about the backlog that we're working to mitigate right now.

Amit Mehrotra
Analyst, UBS Securities LLC

Q

Right. Okay. Very helpful. And then just, a follow-up for me. So China orders, I guess, in the quarter kind of doing what you guys expected them to do. There wasn't expectation that they would stabilize on [ph] easier comp (00:30:11). Are you still expect that? And are you seeing any incremental weakness in? And one of the things we noticed also is maintenance and repair. Is there anything on the pricing side that we should be watching? Because I noticed organic growth was, I think like 3%, but maybe units were running a little bit above that. So maybe what the implication is for underlying pricing in maintenance and repair.

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

A

Yeah. Let me take the China question, and Cristina will take the pricing question. We believe the China market was down 15% in the first quarter, which is actually sequentially better than the 20% it was down in the fourth quarter last year. We expect it to continue to be down 15% in the second quarter. This is playing out really how we thought the year would play out. And then we believe in the second half really it'll be down 10%.

So this is what we're seeing on the ground for New Equipment. We are now saying that we believe the segment itself for 2025 will be approximately 375,000 units in China. But our team again is balancing value, price and New Equipment units for Service stickiness. So it's all part of our Service strategy to do that.

Now, I'll turn it over to Cristina on pricing.

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

A

Yeah. And on pricing, we continue our strategy of passing inflation to the – because we have the ability to do it in our contracts. But inflation this year is softer than last year. So our price effect is around 2 points positive versus 3 points to 4 points positive last year. What you see probably in the way you are calculating maintenance and repair are growing 3% versus portfolio growing 4%.

So there is one point of mix effect from price into maintenance. And repair was relatively muted in the quarter. Repair was growing low single-digit. It's a matter of timing of execution of the backlog. The backlog continues being very strong. The demand is there. The organization was very focused on transformation. We had organizational changes that has delayed execution a little bit, but we are planning to accelerate in Q2.

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

A

Yeah. And let me just finish that one off with the repair backlog is up 5%. So, we have really good line of sight. There's work to be done and it's on us to convert that.

Amit Mehrotra
Analyst, UBS Securities LLC

Q

Very good. Okay. Thank you very much for answering my questions. Appreciate it.

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

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Thanks for the question. I think Amit got four questions in there, so, that was a good job by him.

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

A

That's what I counted, Nigel. That's what I – there was like one and three follow ups.

Nigel Coe
Analyst, Wolfe Research LLC

Q

You got it through pretty quickly. So I'll keep this to two questions. Just, Cristina, can I go back to the tariff math because I'm a little bit confused? So I apologize for maybe just retreading. The $90 million from China, I think you said $100 million of imports from China into the US. So with the reset, I get $145 million annualized impact plus whatever the Section 232 is. So is the $90 million on [ph] slide 15 (00:33:20), is that the pro rata for this year? Was that net of mitigations. Just wanted to understand that number?

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

A

No, no. So Nigel, let me give you some additional color so you can make the calculation. So $100 million is annual purchases from China. The annual impact from tariffs coming from those purchases is $90 million on an annual basis. This is because of the mix of Section 232 that has lower rate versus reciprocal that has higher rate.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay.

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

A

Full year will be $100 million. Our point estimate for [ph] in year (00:33:50) 2025 is $60 million that is three quarters of the full year plus mitigation actions that, of course, this year are more muted because time of execution and time of moving through the backlog. Once we go through the backlog and we start converting the new orders, the impact will be much more smaller.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. No, I think that's clear. And then just my follow on is on the 10 basis points of [ph] all-in OMX (00:34:20) for this year, I just want to make sure that we're doing the math correct here. So it looks like New Equipment margins maybe down to about 4% [ph] or so, 4.5% (00:34:25). Service segment margin and expansion about 40 basis points to 50 basis points year-over-year. Is that about the right math?

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

A

Yeah. So in our new outlook, we have reduced the bps expansion to 10 points versus 60 points before. There is a component of tariffs. So tariffs are 50 basis point ex-tariffs will be the increase. So tariffs has 40 basis points of the reduction. On the other side, we are doing very well in New Equipment cost out. You have seen a strong Q1 where the margins were 5.7%, sequentially 100 basis points up versus the margins we had in New Equipment in Q4. So we are confident, we will be able to compensate part of the tariff impacting the ROS of New Equipment. Thanks to our transformation and cost out actions.

On the Service side, we will have the remaining 10 basis points reduction of ROS. Service is growing – is continually growing, probably a little bit lighter compared to last year because of two effects. One is the mix in sales. So repair will grow mid-to-high single digit versus high single digit last year and we are accelerating mods. And on the other side, we are also investing in Service. This is an intentional investment on Service excellence in order to accelerate portfolio growth and to improve retention rate in the mid-term.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So sorry, when you say 10 basis points reduction to Service, you mean 10 basis points relative to the previous forecast?

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

A

Correct. Correct.

Nigel Coe
Analyst, Wolfe Research LLC

Q

All right. Okay. Okay, great. Thank you.

Operator: Your next question comes from line of Steve Tusa of 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

Good morning, Steve.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Congrats on the milestones. Been through a lot over that time period, but very consistent performance. Just on the Service's side, the revenue growth there was I think 4% organically in the quarter and your portfolio units obviously are still trending pretty nicely in that range. So like was that the impact of the repair business? What drove that? Because I assume we got a little bit of price as well.

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

Yeah. We did get a little bit of price, Steve, but it was absolutely all repair. As Cristina mentioned, as we ended last year, you saw our retention rates had gone down to 92% and change and we weren't satisfied with that. We know that the importance of this flywheel is growing the portfolio, and the most important part of that is retaining our current customers through our best profit sources.

But more importantly, they are our annuity business, and that's what we're in business for. So we've actually refocused in this quarter for what we call Service excellence, and that will continue through the year to drive improved retention rates. That was some investment we made consciously. And we also were rolling out some of the UpLift organizational changes simultaneously. So the backlog is there.

As I said, it's up 5%. You're going to see revenue on repair and the backlog conversion step-up every quarter to where we should have. While it won't be exactly the same as last year. We'll see better repair growth rates in revenue quarter-after-quarter as we go through the rest of 2025. But that was the reason.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Okay. And that's kind of how you accelerate that number going forward? Is it repair getting better?

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

Yeah. Yeah.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Okay.

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

It really is. And if you recall on the last call, I talked about us adding so many more field professionals. We've seen them pick up in terms of their learning curve. And I think you see that really from a productivity reflected in the Service margin being up 40 basis points at 24.6% this quarter. So we're confident it was the right move for the future. Now, we've got to get it tuned more to repair and to work that backlog.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

All right. I don't want to get on Nigel's bad side, but I do have one more question on China pricing. What is kind of the – do you think is the prevailing price year-over-year that's going on there in the market? And I assume you guys are staying more disciplined than that?

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

A

Yeah. So, Steve, on price, price is moderating. Last year you may recall that price in China was down 10%. And we are very disciplined in our pricing strategy, focusing our investments in those projects that have higher conversion likelihood. China in the quarter was down 6%, but sequentially 2 points down only. And this is a portion that we are very confident we can compensate with cost out. So our strategy for China New Equipment this year is price cost neutral.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot.

Operator: Your next question comes from the line of Joe O'Dea of Wells Fargo. Your line is open.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

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

A

Good morning, Joe.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

Can you touch on the Americas New Equipment outlook a little bit more and just the down mid-single versus down low-single and touching on some project delays. And just when we think about, I think, normal course of business, a lot of the activity for the year is in backlog to start the year. And so if you're seeing some delays there, just any color on verticals that's happening, maybe size of projects where you're seeing some of that happening and to what degree that's a fluid dynamic? And so that's – the risk that we see more delays before we see fewer?

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

A

Yeah. I like your term fluid dynamic, I think that's pretty accurate. As we came into 2025, our North America New Equipment market had had two really – the market itself had had in second half of last year two really good quarters. But in the first quarter, the market itself in North America was down 9%, mainly low and mid-rise and commercial and infrastructure were down almost double digit. You see our performance, though, not reflect that in terms of New Equipment orders.

We were up mid-teens for North America, so – which means our team really did well on share in first quarter. I think that's a combination of, again, customer centricity, the right products and strong relationships and performance. As you think about – if you go back in time, Joe, we were – our orders were down before second half last year and that's what's flowing through our backlog right now. We got – we have about 18 months line of sight in North America.

So we're working through that backlog still from 2023 and first half of 2024. And so we think that'll sequentially improve over time because our late 2024 orders were strong and our first quarter 2025 was strong. So we're on the upside of the pendulum, but it hasn't rolled through our backlog yet or revenue yet. In terms of the uncertainty, I think you are one of the people who published the ABI this morning, coming out again fairly low at 44.1%, down from 45.5% in February. So to the architect's activity, I think is reflecting this just uncertainty that we experienced a year ago because of inflation rates.

And I think right now everyone's just really trying to understand what would construction costs look like beyond just Otis and the elevator, in terms of labor, in terms of any other supply, lumber, but especially steel and aluminum. So I think all of that is kind of weighing on decisions in the US and Canada, but we are going to control what we can control and stay focused. We've got a good backlog to execute.

As I said, the past three quarters now counting first quarter 2025, our orders were up. And we're going to continue the strength you've seen. And I have high expectations for our team. I will tell you, the mod orders for Americas, I anticipate a strong second quarter. We had some major projects that got awarded, but not yet booked. And we're going to see mod sales for the Americas up low teens for the year. So you're going to see some strong offset there and they're going to be working on their repair backlog just like everybody else.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

And maybe just to follow-up on that last point because it's kind of interesting, maybe a little bit of the delays that you could see on the New Equipment side, mod side less so, would think that there's still a discretionary element to the mod side. And so how you parse the difference there? It's just a matter of the cost there, a little bit better known and so it's not as much a risk across labor and materials and all the unknowns that could affect new projects or efficiency gains? But why you could see a little bit more kind of strength on the mod side than the New Equipment side?

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

A

Yeah. So mod is – there is an element of discretion to it until your elevator breaks down so much that your tenants or your residents are so frustrated that they don't want continued shutdowns and repairs. Again, I think that's still contributing to the repair backlog today, but it's just another steady quarter of mod growth. We grew mod orders 12%, but the backlog is up 14% and the revenue was up 10%. So we need to convert more mod. So we've got plenty of work there. I'm not worried about that from a concern.

And then outside of North America, we're still seeing safety programs in Spain and other places which do not make mod discretionary, but require building owners to bring their elevators up to the most current safety codes. Mod in China, it's early days, but again double digit growth in orders, significant. I shared we doubled the growth in fourth quarter. It's double digit this quarter. We're seeing sustained growth there and we're seeing sustained investment from the Chinese government for residential mod. And we expect that to continue not just through this year, but going forward.

Joseph O'Dea
Analyst, Wells Fargo Securities LLC

Q

Thank you. Appreciate all the color.

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

Julian Mitchell
Analyst, Barclays Investment Bank

Q

Hi. Good morning. Maybe just a first question to try and understand kind of some of the year-on-year dynamics a little bit better in terms of the guidance for the rest of the year. Seeing organic sales in the quarter, you were sort of flattish. The year has guided up, call it 3%. So is that acceleration year-on-year just kind of steady each quarter through the year? And then on the margin front, you're up 40 bps in Q1 year-on-year, including tariffs, it's barely up. So is it sort of inclusive of tariffs that the framework is margins up 40 bps, 50 bps in the first half and then down year-on-year in the second half? Is that sort of the rough framework we should be thinking about?

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

A

Yeah. Let me start with the revenue and then Cristina will take you through the margins, Julian. But listen, our whole business is based on a strategy of consistent, resilient, steady performance. And that's what you're going to see in the top line the rest of the year.

You can expect it to be fairly steady 2Q, 3Q, 4Q, but obviously better than 1Q as we accelerate conversion in repair as well as accelerate conversion in mod, which is why we took up our sales outlook in modernization to be up low teens. Maintenance and repair, it's still mid-single, but it's a little better mid-single is probably the best way to say it because we've got to again make up for this first quarter. But we're confident, we've got the backlog in every line of business and you should see it flow through relatively, equitably each of the quarters.

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

A

Yeah. And Julian, on the margin, I can give you color per segment. That is a better way to understand the margin evolution. So on the New Equipment side, sales will decline in the first half of the year because of the decline in backlog at the end of the last year. But have started growing orders in the second half in Americas. And the compare gets better from a sales perspective as we execute a better backlog in second half of the year.

From a margin perspective, we've had New Equipment a very strong margin in Q1. We expect additional actions from cost-out to help margin. But on the other side, as we convert the backlog from China, that is lower and with lower price. And as tariffs kick-in starting in Q2, this is going to create some headwinds in margin. That's why our full year guide has been adjusted to 10 basis points, which would be 50 basis points expansion excluding tariffs. So of course, tariff has an impact.

Now moving into Service. Service is going to accelerate starting in Q2. We expect Service top line to grow Q2 at the midpoint of our guide that is 6%. And this will continue accelerating both in repair and modernization in the second half of the year. Margins will gradually expand. You need to consider that Q2 last year was a very difficult compare for us because margins expanded in Service 110 basis points. So probably on Q2, we'll have a tougher compare, but margins will get better VPY in the second half of the year. So in a nutshell, for operating profit ROS, it will be around flattish margins first half of the year, growing 10 basis points second half of the year.

Julian Mitchell
Analyst, Barclays Investment Bank

Q

That's very helpful. Thank you. And then just a quick follow-up. When we're thinking about that tariff effect and obviously it's been touched on a couple of times, but is the right way to think about it, it's kind of $60 million dialed in that does include some mitigation efforts. So in that sense, it's a net number. But there's also kind of more work that could be done, more price that could be pushed or other mitigating efforts. Is that the right way to think about it? So it's sort of a place – an initial placeholder and then you can work to shrink it down?

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

Yeah. And that's really why we gave the range, Julian, is we are not stopping whether it's by job, whether it's by customer, whether it's even having some supply that we were receiving from China, standing that up in the US. So – and that can happen later in the year. But this was the best, most transparent estimate we had as of today and we wanted to make sure that we shared it.

Julian Mitchell
Analyst, Barclays Investment Bank Q

That's great. Thank you.

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

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC Q

Thank you. Maybe just following up on that. Is there any way to think about the quarterly cadence of that, I guess, just take the midpoint, the $60 million tariff in net impact? I would assume that over time, it's minimized as you guys are able to mitigate it. And then just ultimately, what does that mean as we're looking into 2026? Could that be a zero or should we expect still some level of headwind into next year? Thank you.

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

Yeah. Chris, our experience in 2018 was about little over $10 million that we couldn't mitigate in the backlog. And then as we worked through the backlog, we were able to mitigate it. And we are still paying Section 232 and Section 301 tariffs from 2018.

Those have been in play for – and since then, but they're incorporated in our price and they have no impact on our bottom line. I think you can expect the same here, except we still have to work through the backlog in part of 2026, assuming nothing else changes. We can put more mitigation in place, but our backlog in North America, it lasts about 18 months. Obviously, the longer out – further out, we'll continue to work to mitigate. But I think it's fair to expect if nothing else changes, we'll get back to you. But we think there could be an impact – a small impact in 2026.

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC Q

Makes sense and appreciate that. Just maybe following up, kind of bigger picture. There's been certainly more optimism around the European and China economy as you know through the first three months, four months this year relative to last year. Your New Equipment orders in the regions, for you guys were still under pressure. But are you seeing anything, any green shoots or just kind of conversations with customers that give you optimism that, that those regions are returning to a better place of growth? Thank you.

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

Chris, I think I was a contrarian a few quarters ago where I've consistently been not just proud of our EMEA team, but seeing our ability to grow both in Europe and the Middle East. We do this by focusing on market segment. We do this by adding sales reps. We do this through a variety of focused strategies that has allowed us to really have some strong, both growth in Europe and backlog.

This quarter, there's a one-time compare. So even though EMEA is down 4%, the team performed very well. This was all before the German infrastructure projects were announced. So we remain upbeat. We think we have a great product offering in New Equipment across Europe. Our Gen360 is selling extremely well and is becoming a much larger impact in our broader product portfolio.

And we've now moved it to many other countries. But it was designed and started in Europe. And in the quarter actually, we did see strength on New Equipment orders in Western Europe, Central Europe and especially in the Middle East. Total sales, EMEA was up mid-single-digit and mod orders were in the teens again. So our teams performing well in Europe.

On China, I think it's really important for everyone to understand the strategy we've been executing and what that means. Our China revenue for first quarter, we ended last year 13% of Otis total revenue with China. First quarter, we're now down to 10% of Otis total revenue is in China. And we ended last year with about 30%, maybe a third of our China business being Service. We ended the first quarter at 40% of our China revenue being Service. So we have been going through this shift.

Now Service includes maintenance, repair and mod. We have been going through this paradigm shift where it's the reason we transformed our organization. It's behind our strategy is to become a more Service driven business in China and treat China as a mature market and not have as much dependency on New Equipment. And again, I think at 10% and – excuse me at 40% of Service, I think we've shown that. Our New Equipment, China is now 17% of our New Equipment business, which was 24% at year end.

So, again, executing our strategy, Sally and the team are driving this. It's a very tough environment. It's a competitive environment. But that's why we knew we needed to become more of a Service driven company. As we do that, as we grow our Service portfolio in China, which is now up again, it's the 14th straight quarter of teens growth in China. As we do that, we'll get the density and we'll get more margin expansion over time.

Christopher M. Snyder
Analyst, Morgan Stanley & Co. LLC
Q

Thank you, Judy. Appreciate the perspective.

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

You bet.

Operator: Your next question comes from line of Nick Housden of RBC Capital Markets. Your line is open.

Nick Housden
Analyst, RBC Europe Ltd.
Q

Yes. Hi, everyone. Thanks for taking the question. I just have one left. I was hoping you could just discuss some of the one-off costs that you have in operating profit beyond the restructuring programs that you've previously communicated? Because I calculate over $80 million of extra cost in there, so it's a pretty big number. Just to get to understand a little bit better what those are? What the cash impact is likely to be? And whether we should bake anything in here for Q2? Thanks.

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

A

Yeah. Nick, it's the right calculation. So in addition to the $80 million you have calculated, we have approximately $66 million regular restructuring and UpLift transformation costs. That is in the ballpark of our guide of $250 million in the year. So this is kind of one quarter of the $250 million. But in addition to that, we have approx $80 million one-timers that are adjusted from our operating profit that you can see in GAAP operating profit.

So the biggest one is $52 million related to a tax case in Germany. You may recall that in Q3 we recognized and we also adjusted, but we recognized in GAAP, a $200 million positive in interest, $180 million positive in tax receivables and a negative of $194 million above the line related to the indemnification to RTX because this is related to that pre-separation time.

After that, we have received additional information from RTX and we have trued up the amount by $52 million and this is the number that you see in GAAP in Q1. We continue discussing with RTX the scope of the indemnity and we don't expect any cost to be received from the German authorities until second half of the year. It will start gradually in the second half.

Additionally, we have $21 million legal and settlement costs coming from a few large cases that have settled in the quarter from the past. And additionally, we have $10 million of a held for sale impairment. This also is linked to a provision we booked in Q3 when we put the assets under liabilities of one of our non-US subsidiaries classified as held for sale. And we are in the process of completing this transaction and that's why we have trued up and we expect the transaction to be closed in the next months.

Nick Housden
Analyst, RBC Europe Ltd.

Q

Great. Thank you very much.

Operator: That concludes the Q&A session. I'll now turn to Judy Marks for closing remarks.

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

Thank you, JL. As we navigate economic uncertainty, the strength of our Service driven business positions us well to continue to deliver continue earnings growth in 2025. Longer term, we're confident that our strategy will continue to drive attractive returns for our shareholders. Thank you for joining us today. Stay safe and well.

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