

29-Oct-2025

Otis Worldwide Corp. (OTIS)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Robert Quartaro

Vice President-Investor Relations, Otis Worldwide Corp.

Cristina Méndez

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

Judith F. Marks

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

OTHER PARTICIPANTS

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Amit Mehrotra

Analyst, UBS Securities LLC

Nigel Coe

Analyst, Wolfe Research LLC

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Julian Mitchell

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' Third 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 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' third 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'll turn it 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.

Starting with Q3 highlights on slide 3. Otis delivered strong third quarter results and returned to growth as we executed well on our Service-driven business model. Organic sales in the quarter were up 2%, driven by Service, which grew 6%. Notably, modernization organic sales grew 14%. Adjusted operating profit margin expanded by 20 basis points overall driven by Service margin expansion of 70 basis points. This strong performance, together with a lower share count, drove a 9% increase in adjusted earnings per share in the quarter. Our maintenance portfolio continued to grow 4% and we are on track to approach 2.5 million units in our Service portfolio by year end.

Modernization order growth accelerated to 27% and backlog increased 22%. New Equipment orders grew 4%, returning to growth for the first time since the fourth quarter of 2023, supported by moderating declines in China and good momentum across the other regions.

Adjusted free cash flow increased sequentially as anticipated to \$337 million, giving us good line of sight to deliver our adjusted free cash flow outlook of approximately \$1.45 billion for the full-year. We opportunistically completed approximately \$250 million in share repurchases during the third quarter, bringing the year-to-date total to approximately \$800 million, fulfilling our full-year outlook. We continue to innovate both in our product and go to market approaches.

For example, we recently launched Otis Arise MOD packages in our EMEA region, which represents our largest modernization opportunity currently. Otis Arise MOD is a new suite of flexible phased modernization packages designed to help building owners upgrade their elevators in a way that creates less disruption for passengers and provides customers with options for a phased project and predictable budget. Otis Arise MOD reflects our commitment to customer-centric innovation and positions us to capture long-term modernization demand across the region.

Also during the quarter, Otis was named to TIME Magazine's list of the World's Best Companies for 2025 and again recognized by Forbes as one of the world's best employers. These recognitions reflect our commitment to our Absolutes, our strong culture, global impact, and commitment to excellence.

Turning to our orders performance on slide 4. Combined New Equipment and modernization orders grew 9% in the quarter with notable strength in Americas, EMEA and China. Our combined backlog increased 3% and excluding China increased 11%. Our total backlog, including maintenance and repair, remains near historically high levels, which should support growth in the coming quarters.

New Equipment orders increased 4% in the quarter, and excluding China, we saw robust 7% growth, with EMEA up high teens driven by Southern Europe and the Middle East, while Americas grew mid-single digits. The strength was partially offset by a low single digit decline in Asia.

We have seen improvement in China year-over-year comparisons, and we expect China New Equipment orders to be down mid-single digits for the second half of the year. At constant currency, our New Equipment backlog declined 1% year-over-year, but excluding China, it grew 8%. We had our highest modernization orders since spin up 27%, driven by strong 20-plus-percent orders growth in Americas and China and high teens growth in EMEA. Our quarter end backlog grew 22%, positioning us well for the coming quarters.

We continue to believe we're in the early innings of a multi-year growth cycle in modernization driven by the aging of the 22 million unit installed base. All regions contributed to our Service portfolio growth of 4% in the quarter. We saw low teens growth in China, mid-single digit growth in Asia Pacific, and low single-digit growth in Americas and EMEA.

Our global teams continue to execute well and this quarter we secured a number of strategic customer wins that underscore our ability to deliver differentiated solutions, deepen relationships, and expand our footprint across key markets.

In the Americas, we secured a project at 100 McAllister in San Francisco, a landmark 1930 Gothic Revival and Art Deco building that serves the University of California Law School. Otis will install five Gen3 elevators with Compass destination dispatching, delivering advanced vertical transportation while preserving the building's historic character. The project is being managed by [indiscernible] (00:06:55), a longstanding Otis partner, and highlights our commitment to quality, innovation and heritage preservation.

In China, Otis was awarded the largest bond funded elevator renewal project in Shanghai with 106 units at the Sunshine Waterfront residential community. We're upgrading legacy Otis roped elevators to our Otis Arise MOD packages, preserving key components to optimize the bond budget and adding AI-enabled safety cameras to prevent e-bike entry. Our customer has requested handover by year end with a fast-paced schedule requiring 10 units replaced every 10 days. This project showcases our ability to deliver safe and efficient solutions under tight timelines.

In Dubai, we've secured a new project with Sobha Realty to equip Sobha SeaHaven, a premium residential development in Dubai Marina. Otis will supply 29 units, including 25 SkyRise elevators and four Gen2 machine-room with high speed systems, as well as our EMS 2.0 elevator management system. This project further reinforces our presence in the high-end residential segment and marks an important step in building a strong relationship with Sobha Realty.

In South Korea, Otis was selected for the [ph] Landmark K project (00:08:23), the first urban architectural design innovation project designated by the Seoul Metropolitan Government. We'll provide a total of 54 units, including 25 SkyRise elevators and Compass 360 destination management system to optimize passenger journeys. These projects highlights our role in shaping next-generation urban mobility, and we're proud to support this innovative development in Seoul.

Finally, last week, I had the privilege of joining our customers at the celebratory ribbon cutting of the new JPMorgan Chase global headquarters in New York at 270 Park Avenue. Otis installed 89 units, including 72 high performance SkyRise elevators and 12 escalators, and introduced our Compass Infinity AI dispatching system, which continuously learns and optimizes passenger flow. We're proud to support JPMorgan Chase at this landmark site and beyond.

Turning to our third quarter results on slide 5. Otis delivered net sales of \$3.7 billion, with organic sales up 2%. Adjusted operating profit margin, excluding \$17 million foreign exchange tailwind increased by \$16 million, driven by strength in the Service segment. Adjusted operating margin expanded by 20 basis points to 17.1%. Adjusted EPS grew approximately 9% or \$0.09 in the quarter, driven by strong operational performance, favorable foreign exchange rates, a lower tax rate, and a lower share count. Adjusted free cash flow was \$337 million in the quarter and \$766 million year-to-date.

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 6% with growth in all lines of business. This acceleration represents the highest organic Service sales growth this year, in-line with expectations and demonstrates the fundamentals of our Service flywheel.

Maintenance and repair organic sales grew 4%, with maintenance driven by 4% portfolio growth and 3% positive price, partially offset by mix and churn. Our repair business continued to accelerate to 7% growth year-over-year, after the first half of the year marked by the transformation changes in our branches as expected repair activities improving in the second half, and we expect repair shares to continue ramping up to 10% growth or above in the fourth quarter.

Modernization sales also saw significant acceleration in the quarter with organic sales growth of 14%, on the back of our robust growing backlog at the end of the second quarter. Furthermore, the outlook for modernization remains strong and the aging installed base should continue to support sustainable modernization growth in the coming years.

Service operating profit of \$621 million increased \$49 million at constant currency, with higher volume, favorable pricing and productivity more than offsetting higher labor costs and mix and churn. Operating profit margins expanded 70 basis points to 25.5% in the quarter, the highest margin expansion of the year, and marked another record quarter in Service margins since the spin.

Turning now to New Equipment on slide 7. New Equipment organic sales declined 5% in the quarter, as the strength in Asia-Pacific and EMEA were more than offset by declines in China and the Americas. EMEA sales grew 3%, driven by robust growth in the Middle East, while Europe was relatively flat.

Asia-Pacific grew high single digits, driven by strong growth in India, Japan and Southeast Asia, partially offset by weakness in Korea. Americas declined 7%, as we continue to work through last year's backlog. However, thanks to solid orders performance for five consecutive quarters, Americas growing backlog provides line of sight for the region to deliver positive New Equipment sales growth in the near future. Excluding China, our New Equipment backlog grew 8%. And while China is still relatively weak, the sales decline versus the prior year is expected to moderate in the second half. China New Equipment sales declined approximately 20% in the third quarter.

New Equipment operating profit of \$59 million declined \$24 million at constant currency and operating profit margins declined 170 basis points to 4.7%. The operating profit decline was driven by lower volumes and favorable price, tariff headwinds and mix, these were partially offset by productivity, including the benefits of restructuring actions. The margin decline was more moderate than anticipated, thanks to better than expected sales, especially in Americas, and ongoing efforts to reduce costs as part of our China transformation. Due to our progress, we now anticipate 2025 in-year savings of approximately \$30 million from the China transformation, and we have captured more than \$20 million year-to-date. On an annual run rate basis, we continue to target approximately \$40 million per year.

Our average savings targets have not changed. We continue to expect 2025 in-year savings of \$70 million and to reach annual run rate savings of \$200 million by the end of the year. Note, we have reduced our expected full-year 2025 restructuring and transformation costs to approximately \$220 million.

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 8 with the market outlook. Before discussing our updated 2025 outlook, I'd like to briefly discuss our global market expectations. We've continued to see improvements in the Americas. Therefore, we are upgrading our outlook to up low single digits. This upgrade is supported by continued growth in the US and Canada, particularly within the infrastructure and residential verticals.

Notably, we've also seen encouraging developments in the data center segment this quarter, a vertical we believe holds strong potential for sustained growth given increasing demand for digital infrastructure.

Our outlook for EMEA and Asia remains unchanged, with EMEA growing low single digits and Asia declining high single digits. In EMEA, we continue to see greater than 20% growth in the Middle East, supported by strong projects activity and urban development.

Central and Southern Europe are on pace for mid-single-digit growth, partially offset by softer trends in Western Europe and the UK and Nordics. Within Asia, our outlook for China is unchanged, down low teens. Overall, we continue to expect a mid-single digit decline globally, but while New Equipment industry orders are expected to decline this year, we anticipate the industry installed base will continue to grow mid-single digits with low single digit growth in Americas and EMEA and mid-single-digit growth in Asia. This growth reflects the 830,000 units that were installed two years ago that are now rolling off their warranty period.

Turning to our financial outlook. We continue to expect our Service segment to drive full-year revenue and profit growth. We anticipate total net sales of \$14.5 billion to \$14.6 billion, with organic sales growth of approximately 1%. Third quarter marked our return to organic sales growth, driven by accelerating repair and modernization, as well as moderating declines in New Equipment organic sales.

We expect these improving trends to continue in the fourth quarter. These trends should also flow through to the bottom line. Our adjusted operating profit outlook is \$2.4 billion to \$2.5 billion, up \$75 million to \$95 million in actual currency, including the impact of incremental tariffs imposed in 2025. We've narrowed the range and increased the midpoint of our adjusted EPS outlook to \$4.04 to \$4.08, representing an increase of 5% to 7%, compared to 2024.

We anticipate adjusted free cash flow of approximately \$1.45 billion for the year, in line with the midpoint of the previous guide. As I previously mentioned, in the third quarter, we completed our full-year target of approximately \$800 million in share repurchases.

I'll 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 approximately 1% for the full-year, driven by a strength in our Service business, partially offset by a decline in New Equipment, as we walk through last year's backlog.

Within New Equipment, we have improved our Americas organic sales outlook to down mid-single-digits due to improving shipments in the second half of the year. We have seen five consecutive quarters of orders growth in the region and we have a solid backlog entering the fourth quarter. Asia is still expected to decline low teens, with high single digit growth in Asia-Pacific, more than offset by a greater than 20% decline in China.

As mentioned before, the China New Equipment sales year-over-year decline is moderating sequentially in the back half of the year, thanks to an easy comparison. And taken together, we expect New Equipment organic sales to decline approximately 7% for the full-year.

Within Service, we have maintained our growth outlook across all segments. Maintenance and repair is expected to grow mid-single-digits within range of our previous outlook. The change to mid-single-digit growth is mainly rounding, given maintenance and repair has grown 4% year-to-date and we expect approximately 5% growth in the fourth quarter. We anticipate repair to continue ramping up, with growth accelerating to 10% or above in the fourth quarter.

We are pleased to see the repair backlog normalizing with shorter execution time, driving customer satisfaction and we are well-resourced to execute as we have continued to ramp up field mechanics similar to last year. In modernization, after a solid third quarter, we have good line of sight to deliver approximately 10% growth in 2025, on the back of our strong backlog.

Turning to our financial outlook on slide 10. We now expect adjusted operating profit to grow \$75 million to \$95 million on an actual currency basis, including the impact of tariffs. On a constant currency basis and excluding the impact of tariffs, we expect adjusted operating profit to grow \$65 million to \$85 million. We continue to anticipate a tariff impact of approximately \$30 million for the full-year, assuming current reciprocal and Section 232 tariff rates. As a reminder, the tariff impact is primarily in our pre-2025 backlog, as we have adjusted contract terms and pricing.

Adjusted operating margin is expected to expand by approximately 30 basis points, in line with our previous expectations. Cash flow has sequentially improved in the third quarter and we have good line of sight to deliver the guide of approximately \$145 billion for the year, as we anticipate fourth quarter cash flow to be in line with last year.

Looking at the big picture, 2025 is on the pace to be another challenging year in New Equipment, with sales declining over \$350 million at constant currency, similar to 2024. Despite of ongoing challenge in New Equipment price and volumes, we are effectively managing cost to mitigate our decremental margins.

At the same time, we expect to deliver another year of solid adjusted operating profits growth, thanks to the strength of our Service flywheel, with 5% top line growth driven by volumes and price and ongoing margin expansion driven by density, productivity, and our UpLift program.

Moving to 2025 EPS bridge on slide 11. We are narrowing the range and raising the midpoint of our outlook. With only two months to go, we now have good visibility for full-year results. We expect full-year adjusted EPS of \$4.04 to \$4.08. This is driven by a strong operational performance in our Service segment, partially offset by a decline in New Equipment. Favorable foreign exchange rates and a lower share count are expected to offset headwinds from tariffs and higher interest expense.

Taken together, this represents adjusted EPS growth of 5% to 7% for the year. While it is too early to provide formal 2026 guidance, we remain confident we can continue to deliver solid earnings growth in the coming years

through the strength of our Service-driven business model. The global installed base continues to expand, supporting mid-single-digit growth in our Service portfolio, which should continue to drive our maintenance and repair business. We are also in the early innings of a multiyear growth cycle in modernization due to the aging of our installed base. Combined with our productivity and cost savings initiatives, we have a strong foundation to continue delivering sustainable revenue and earnings growth.

With that, I will kindly 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 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 talk a little bit about the efforts that are underway on the maintenance side in terms of what you're doing on retention and recapture? And when we think about that growth that might be pacing kind of in the 3% range on revenue, and what your visibility is with respect to the timeline to see that stepping up as you achieve some of your targets around retention and recapture?

Judith F. Marks

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

A

Yeah. Thanks, Joe. As we've shared all year, we were not pleased with where we ended 2024 and we made a conscious decision to invest, invest in our Service excellence, invest to make sure that we could retain our customers more. We'll share those outcomes at fourth quarter statistically, but I will tell you it's going to be a long journey. We should see some sequential improvement, but returning to the 94% retention rate will take sustained time to rebuild customers' trust as well as to gain them back.

You know, having said that, we continue to add about 100,000 units this year. And as I shared in my opening remarks, we're going to approach 2.5 million units in our portfolio. That gives us the density not just for maintenance and for productivity and maintenance, but it gives us additional repair opportunities and we'll talk more about that, I'm sure, this morning. So we have good line of sight. We understand our conversion rates. We'll share those as well. We're pleased with where those are heading directionally.

And again, our focus is on customer satisfaction and driving retention rates up. Recapture rates we're pleased with as well, both Otis and non-Otis equipment, and we'll continue to drive towards portfolio growth. We'll share more at our Investor Day next spring, but we do believe that we should be growing at higher than a 4% portfolio. We're pleased we've done that now for over two years after being a traditional 1% growth, but there's more to happen in the maintenance portfolio, so stay tuned.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Appreciate those details. And then on Americas and New Equipment, and what you're seeing in a little bit better outlook there, just in terms of any more color on kind of how the last few months have kind of unfolded when you talk about infrastructure and resi as some of the verticals where you're seeing a little bit better activity. Were these

things that were in the pipeline, you just didn't think they were going to happen in the back half of the year? And any other color on what you attribute, you know, some of the demand kind of coming through here too?

Judith F. Marks

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

A

We're much more positive on Americas growth based on two factors. One, the demand we're seeing, and, you know, that's only with one interest rate change, but the demand we're seeing. Residential, as I said, infrastructure are driving most of these improvements, but all geographies in the Americas showed growth this quarter. So we were very pleased with that.

The second thing we're seeing, Joe, is on the New Equipment execution side that gets us equally excited about the future. We had shared with you last quarter that we had started seeing some challenges at job sites, where there had been slow down by other trades. As we came through this third quarter, we saw that basically being eliminated and back to a normal cycle of construction at New Equipment sites. So with the backlog growing in New Equipment in the Americas and this was our fifth straight quarter of growth, especially in Americas, about 4%. That 4% is on top of 23%, same quarter last year.

So Joe and our team are just really driving, Joe Armas, are driving this growth on growth. And you know, we have our great Gen3 Core product that's out there. We're addressing so many different segments now. And so we're really seeing that growth, and then it's going to come through. It's five quarters now. We say there's about an 18-month lag, especially in North America, from the time we take an order until we see that revenue come through, which is why we're feeling good about Americas revenue in the next few quarters.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Thank you. Appreciate it.

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

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. So really nice momentum in repair activity. I think you said, Judy, 10% growth in repair in the fourth quarter. Just maybe just talk about, you know, sort of the visibility on that. And really what's driving this sort of, this crunch towards growth in the back half of the year.

And then just maybe, you know, the implied maintenance growth would be probably sub-4% when we back up repair. I know that mix is a negative headwinds to the kind of the core maintenance growth rate. So maybe just talk about, you know, where you're seeing the pressure points on mix and how that resolves or kind of improves as we go into 2026?

Judith F. Marks

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

A

Sure, Nigel. I will – let me take the repair and I'll hand over the maintenance to Cristina. If you look at our sequential repair improvement, started out fairly anemic at 1% growth in the first quarter, went to 6% in the second quarter. We were 7% this quarter, and we have line of sight to at least 10% in the fourth quarter, which gives us the confidence for the outlook for maintenance and repair to be mid-single-digit. Especially now through October, we're seeing orders pick up as well, so that gives us even more confidence in repair, but I was pleased

to see us really with that revenue growth, two straight quarters, 6% and 7% and now 10%, we are going to turn that backlog much quicker.

And Cristina mentioned that helps with customer satisfaction. No one wants to wait in the queue to get an elevator and escalator repaired. So we have made sure we have our mechanics available, the parts available and we've put a concentrated effort to backlog conversion and that that rolls through to modernization backlog conversion as well. You'll recall that was 5% second quarter. Now, again, for organic, it's 14% this quarter, and our backlog is still growing.

So we've got pretty good line of sight to the Service revenues and what's going to happen in the fourth quarter, and especially in repair as you know, elevators are aging. You know, we've got 8 million plus over 20 years old. And when they don't become modernized, they do tend to break more frequently because of usage and age. And so, you know, we think, the repair business is going to stay strong.

I think it could moderate over time back to kind of more traditional, you know, mid to high single digit versus 10%, but we think it's going to remain strong. Cristina, I'll turn maintenance to you.

Cristina Méndez

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

A

Yeah, Nigel, on maintenance, we have always said that we like seeing maintenance and repair together because depending on where you are in the world, the contractual setup is different, you have places where everything is included, therefore everything is in maintenance, other is where the maintenance fee is smaller, but then we have a lot of repair activity, so it's better to see them together.

But talking about maintenance specifically, our performance this year has been very stable, year-to-date, we have grown maintenance 3% and we expect this to continue going forward. The formula is as follows, we are growing portfolio 4%, we have a 3% price, and that means that there is a headwind in mix and churn, and this is exactly the area we are focusing on at the moment.

Judy mentioned before all the actions around customer retention improvement, investment in Service excellence. This is going to be a mid-term journey, but we are positive about the initial results we are getting from those investments. And the other headwind would be the geographic mix of the growth, and we are also focusing on growing in high-value markets and also focusing on a more sophisticated price algorithm. So with all of these components, we expect maintenance growth to improve going forward, but again, the best way to look into this is to bundle maintenance and repair.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. I think we'll follow up offline [indiscernible] (00:33:43). Maybe just a quick one on 4Q New Equipment margins, 3Q came in a bit better, obviously not great margins, but came in a bit better than we expected. I'm just wondering if the furlough maybe wasn't quite as impactful as expected? And then the question we're getting is, normally 4Q margins would be much lower in New Equipment than the 3Q. That doesn't seem to be what you're signaling, so just maybe talk about that as well.

Judith F. Marks

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

A

Let me talk to 3Q. So we had two things really help us on margins in in 3Q. One, our team in China really accelerated. We entered this year as I step back, we entered this year knowing we needed to transform our China business and our team took that on. We did our China transformation, and we're now going to achieve \$30 million in savings, we've already achieved \$20 million now. We're going to achieve \$30 million. That all gets reflected in that cost takeout line in New Equipment. So by accelerating that, that helped. The other thing that helped was just more shipments than we had originally predicted out of our North America factory in Florence. So those are the two reasons that drove the margin expansion.

Cristina Méndez

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

A

Yeah. And on Q4, Nigel, so we expect margins to be around 4%. Q4 margins are seasonally lower than Q3, but we also need to bear in mind that because of the New Equipment segment getting smaller, there is much more volatility on margins. Having said that, because of the positive trends we see in the moderating decline in New Equipment sales, together with the accelerated savings in China transformation, we are positive about New Equipment margins being around 4% in the quarter, that full-year would be approximately 130 basis point down versus previous year.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. Very helpful.

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

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey, thank you. Good morning, everyone. Judy, Cristina, I hope you're doing well. Can we just talk a little bit more about price? You noted price continues to be up on the Service side. I would suspect there's still a meaningful geographic difference, China versus rest of the world, but can you give us a little more color on what you're kind of booking on new business today?

Judith F. Marks

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

A

Yeah, in terms of Service pricing, like-for-like pricing increased 3 points in the quarter. Obviously, inflation has receded somewhat in most of the world, but in mature markets where most of our Service portfolio resides now, Jeff, EMEA was up low single digits. They had a tougher compare because of their ITC program in Spain, so they did have a tougher compare, but they're doing really well. And Americas was up mid-single digits and Asia Pacific up low single digits.

In China, as you know, the margin drivers are less on price and more on density and everything else. Mix and churn for Service was flat. Now China Service, our team continued to grow our Service portfolio in the teens yet again, and our Service units, that was the 16th straight quarter of teens growth in our China portfolio.

We believe we're going to end the year approaching 500,000 units of those 2.5 million units in China. So our Service revenue there was up slightly. And our China team, I would tell you to put it all in perspective, Cristina said maintenance and repair. I would say add maintenance, repair and modernization in China. Our China modernization was up substantively. Our orders were up 150-plus-percent in China for modernization.

When we look at those bond stimulus orders, we were ready earlier this year. We're going to convert a lot of those to sales. We have a tough compare in fourth quarter from last year on those, so I wouldn't expect that similar number. But the China team has just really brought home this MOD stimulus to where we do believe we are leading the order value in China amongst all of our peers for the MOD residential bond program.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Interesting. And then on the New Equipment side, can you kind of do a similar kind of geographic rundown for us on price? And I think Cristina said only pre-2025 backlog has not been repriced. I wouldn't imagine there's a whole lot of pre-2025 backlog left, but maybe I misunderstood the comment there.

Judith F. Marks

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

A

Yeah, there's still some pre-2025 backlog left in the US. So I think when you're looking at, you know, will there be some tariff impact in 2026 based on what we know today of reciprocal in 232 tariffs, there will be some. It should not be as much as we had this year, but there will be some.

When we think about New Equipment pricing, it's up low single digit outside of China, and obviously China, the pricing was down roughly 10% in the third quarter, and what we have done to really drive back to close to price-cost neutral is use, you know, cost-out productivity, tailwinds on commodities and our China transformation program. So all of those have contributed, I would tell you strategically we were prepared for this. And in the New Equipment market in China, Jeff, we are seeing sequential improvement. The second half we think is going to be down 10% versus down 15% for the first half, and our team outperformed that.

Our third quarter New Equipment orders and as you look at the second half, we really expect to be down mid-single digit versus second half last year. That's, to me, the real turn-in for us on stabilization.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thank you for that.

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

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey, good morning.

Judith F. Marks

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

A

Steve?

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Can you, I guess, you know, you talked about retention. Is it still getting better sequentially? And do you still have a target for year-end to be, you know, for retention to be at least up year-over-year getting better?

Judith F. Marks

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

A

I think it's very slightly improved. You know, when we lose a customer, they do a multiyear service contract with someone else. So that's why it's so impactful and why we're laser-focused on it, to make sure that we're completing – having the right quality of service, completing everything on time, being responsive to our customers, but I wouldn't anticipate a step function improvement, Steve, when we report this after fourth quarter. You know, we've made the investment now, but it's going to be day-to-day, customer-to-customer, making sure that anyone who's going to renew, we're focused on them and we're making the right investments now to keep them.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Got it. And then just on this Service's growth for the fourth quarter, it does look like if repair is going to accelerate, I don't know, like the comp is like on MODs, but if you're, you know, kind of stable on the maintenance side that you should see an acceleration in revenue growth in the fourth quarter at Services, right from 6% to maybe, you know, close to 7%.

Cristina Méndez

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

A

Yeah. Steve, for the fourth quarter, we expect Services to be around 6%. And you rightly said, repair is going to continue accelerating. We expect repair to be 10% or above, which by the way, is the growth we had last year in Q4. So this demonstrates that repair is back on track and kind of normalized.

On the other side, MODs is going to be 10% versus 14% in Q3. The reason for that is the calendarization of the bond execution in China. Last year, bond projects that are the subsidized projects were very concentrated in Q4. China grew in Q4 more than 100% revenues there. This year is more level loaded between Q3 and Q4. So it's going to be 6% for the quarter.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Got it. And just one last nitpick, but if I do, you said New Equipment was going to be down 150 basis points, I guess, was that a fourth quarter comment or an annual comment?

Cristina Méndez

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

A

No, an annual comment. What I said is that New Equipment margin is going to be 130 basis points down versus prior year, full-year.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

30 or 50?

Cristina Méndez

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

A

130.

Judith F. Marks

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

130, Steve.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Great. Okay. Okay. That makes more sense. Okay. Got it. Okay. Just making sure I had the numbers right. Thank you so much.

Q

Judith F. Marks

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

You bet.

A

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

Amit Mehrotra

Analyst, UBS Securities LLC

Thanks, operator. Hi, everybody. I just wanted to ask about Service margins and maybe structurally as we think beyond the fourth quarter. Obviously, it was nice to see the expansion of the third quarter, we're up 40 bps year to date. Is kind of that 50 basis point expansion algorithm still structurally, right? I'm just thinking about, obviously, the net impact of higher MOD mix in revenue that seems to be accelerating in 2026 given the order growth. You're obviously making a lot of investments that maybe serve as a debit to density, if I'm thinking about that correctly to drive retention higher over time. So I assume that's a little bit of a headwind. I'm just trying to understand, as we look beyond, you know, 2025, like, are those net headwinds to that margin expansion algorithm in Service?

Q

Cristina Méndez

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

Yeah. So we are very pleased with the margin expansion in Service in Q3, it was 70 basis points, 25.5% margin, the highest margin rate in Service we have had since the spin.

A

The reason for this strength is essentially very good performance in volumes, both repair and modernization ramping up, volumes drives productivity, drives absorption. Also MODs ramping up in principle is a headwind in margin rate, but we also see MOD margin rates improving sequentially, we have good line of sight to reach 10% margin rate for MODs in the mid-term, and we see this is sequentially happening quarter after quarter.

And last but not least, on repair, we also have the flow through of a better price, so we see the rate of repair improving because of the price increase we executed in Q2. So with all of this, we expect full-year margin for Service around 25%, which is going to be 40 basis points up. And going forward, we are going to be laser-focused on growing Service contribution in dollar basis, and we have very favorable tailwinds for that, so one is the volume growth, we have price, and we have productivity. From a rate perspective, MOD will be slightly a headwind, and we are also going to calibrate investments in order to continue growing top line, but the focus is going to be Service contribution growth in dollar basis.

Judith F. Marks

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

A

Yeah, Amit, it's Judy. I would also tell you every quarter since spin, so 22 quarters, this is our 23rd, we have increased Services adjusted operating profit dollars. And as Cristina said, it's going to be those dollars versus sustained margin rates at the levels we've shown now going on six years. Those dollars will contribute in terms of profit dollars, and they'll contribute in terms of cash as we grow the portfolio.

Amit Mehrotra*Analyst, UBS Securities LLC*

Q

Got it. Okay. That's helpful. Thank you. And just a quick follow-up on China. You mentioned pricing was still weak in China, but you know, some of the data that we look at kind of assumes or shows that it's finding a floor. I don't want to get too cute with the data, but, you know, when you look at the month-to-month trends, it feels like it's finding a floor. Is that appropriate or accurate? If you can just comment on what's happening on the pricing side in China in real time?

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

A

In real time, we are seeing stabilization in the second half, and it's what we predicted in January, that we thought the first half would still see a fairly significant decline, but we're seeing that sequential improvement in China in the New Equipment market. And so, you know, we are leading in the infrastructure segment. We're leading in the high-rise segment in China. And we are making sure that the units that we bring into our portfolio or actually that we win in New Equipment will be a higher conversion probability for us into the Service portfolio.

As we look at our China business as a whole, China, just like last quarter, represents 12% of our global revenue, and it's now similarly 21% of our New Equipment revenue for the quarter. Our Service business now in China is 40% of our business in China, and so this 40% would equate to quite a few years ago, 15%.

So we have had this focus on conversions, on New Equipment driving our Service flywheel. And China has done a great job to now make us a 60-40 business New Equipment to Service in terms of revenue. And that Service business in China is going to continue to grow between portfolio growth, which will drive maintenance and repair, and modernization growth, which in China they tend to modernize at the 15-year point.

We have all indications that this bond modernization stimulus will continue into 2026, and as part of the 15th five-year plenum, you know, some of our interpretation of what's happening there is there's a focus on quality and digital versus involution, that we believe that the MOD bond will continue potentially after 2026 as well. It may look a little different in terms of how much stimulus the government contributes versus the consumer, but we are making sure that we are optimized in bond and in regular modernization in China.

Amit Mehrotra*Analyst, UBS Securities LLC*

Q

Right. Okay. Thank you very much. Appreciate it.

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

Chris Snyder*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Judy, you mentioned, you know, it's going to take time to get the retention rate back to where it was. And I think you specifically said you have to rebuild some customer trust. I guess, can you just maybe talk a little

bit about why that trust has deteriorated over the last 12 or maybe it's been longer than that? Any color there would be helpful.

Judith F. Marks

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

A

Yeah. Thanks, Chris. And it's – listen, this is something that we own. This is mainly about operational execution versus these customers going somewhere else just for price. I want to be clear about that.

The good news is it's something we own and we can control and we can address. But you know we've gone through some changes in personnel, as you can imagine, as we went through our UpLift program and some of those were customer facing, although most of those were back office, we know that we can become more accurate in everything from invoicing to that, and, you know we've now focused on having a GBS partner to help us do that. So we're taking actions, we're adding mechanics.

Cristina said we've added pretty comparable numbers of our field professionals this year, and I have to thank our field professionals for the work they do and how they represent our company every day because they are the heart and soul of this company. So we've added more where perhaps, you know, we had gotten to some ratios where we weren't able to deliver the outstanding service that we should and we commit to.

So we're making sure we have better coverage. Some of that is an investment. We think that investment is worthwhile because of our Service flywheel, and we're going to continue to do that in all parts of the globe, but especially in our high-value, lifetime-value countries where we understand really the value of every Service contract and every unit in our portfolio.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I really appreciate that. You know, if we – I guess to follow up, you know, is a lower retention rate have an impact on the rate of margin expansion in the Service business? I would imagine that retention, you know, is very good incremental business. And now if you guys need to go out in the world and win more new work from someone else, would that, you know, be maybe lower incremental margin, because, you know, there's more costs associated with winning new business rather than retaining business you already have? Thank you.

Judith F. Marks

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

A

Chris, the best business for us is when we convert a New Equipment customer into our portfolio to start, and then depending where you are in the world, maybe one to four years later or more, we want to retain them with another Service contract, even though during that period we've got inflationary adjustments, we've got price adjustments and we're servicing the customer.

So you are absolutely accurate that that's – those are the customers we want to retain because of the contribution margin that they drive. When we lose them and replace them with what we call a recapture, and we share the recapture rates, we'll share those as well in fourth quarter, they're strong, but obviously to recapture from someone else, you have to take it away from them.

We don't always just do that with price, though, which is your margin comment of why that would be lower. It is inherently lower, but we add functionality like Otis ONE and we add other value differentiators and we bring them

back also on a road to modernization and a path there. So for us, the long term value of that makes sense, but there is some margin headwinds by that loss of retention, absolutely.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you, Judy. I really appreciate that.

Operator: The next question comes from Nicole DeBlase with Deutsche Bank. Your line is open.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Yeah, thanks. Good morning. Just a couple of tie-ups from me since we've gotten through a lot of questions on the call. I guess maybe first, if we look out 4Q EPS, I think typically you see like about a mid-single digit decline, if I look back into your history, post-spend, you're embedding something more like 1% this quarter. So just can we understand what's maybe a little bit better this year than what you've seen in the past?

Cristina Méndez

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

Hi, Nicole. Yeah. So on EPS growth, we are planning \$0.11 of growth in Q4 versus \$0.09 in Q3. This is essentially coming from operating profit. So operating profit performance will improve because of New Equipment decline of sales moderating, as we have seen in Q3. So it's continuing the trend we saw in Q3.

And on the Service side, it's the acceleration of repair plus also ongoing margin expansion. Although Q4 is typically a lower margin rate quarters from a seasonality perspective, both on New Equipment and Service, and we are considering this seasonality. But we have very good line of sight to deliver this EPS growth because essentially, as I said before, it's continuing the trend of what we have executed in Q3.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Thank you, Cristina. Super helpful. And then on the buyback, you guys have basically completed your \$800 million commitment for the year. Should we assume that you're done? Or is there room to maybe execute more buybacks if you see the opportunity in the fourth quarter?

Judith F. Marks

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

Yeah. In terms of capital allocation, Nicole, you know, we are sticking with our capital allocation model in general, which includes beyond dividends and buybacks, also includes some M&A activity. Our M&A activity through the third quarter is up more than most years. We've already invested a little over \$100 million in M&A as we went through the third quarter. So we've been looking at all different cash usage.

Again, these bolt-on M&As really give us that addition, they give us additional maintenance, they give us additional mechanics, they give us additional density, and they are accretive, if not in year one by year two. So they make sense for us. And now that more have become available, we've been using cash deployment to do that.

So to answer your question specifically, we believe we are through. We still have authority from our board, obviously, in terms of the capacity to do more. But we were opportunistic. Unfortunately, our stock price dropped fairly significantly after 2Q earnings, and we were opportunistic then to buy more shares back.

Nicole DeBlase*Analyst, Deutsche Bank Securities, Inc.*

Thank you, Judy. That was really helpful. I'll pass it on.

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

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Hi. Good morning. Just wanted to start with the free cash flow, because I guess you've had this trend in Q3 and recent years where the adjusted operating margins rise year-on-year, but the free cash flow margin fall. So just wanted an update on, you know, do you think that can turn around anytime soon?

And maybe clarify a couple of things on the free cash. Specifically, one would be around, you know, how do we see the burden from cash restructuring changing from here? And also wondered how the rise in modernization affects the free cash flow dynamics of the business, if at all?

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

Yeah. So Julian, on cash flow, Q3 was a sequential improvement versus Q2. We delivered \$337 million, that was \$100 million better than Q2. And in terms of conversion rate, it was around 81%. This is much below the conversion rate we have historically had, and we are convinced that our business model should be at 100% conversion rate.

The reason for this is the working capital build-up related to the change of the business mix. So year-to-date, our New Equipment sales have declined \$300 million versus Service growing to \$340 million. And as you know, New Equipment has a more favorable working capital compared to Service. But all of this is just temporary, and we are confident that as New Equipment stabilizes and Service continues growing, we are going to come back to the regular levels of 100% conversion rate.

In fact, for Q4, we are planning cash flow to be around \$700 million. That's the same amount of cash we generated in Q4 last year. And we have positive signals that gives us the confidence that we are going to deliver. One is the fact that the orders in New Equipment turned positive in Q3, were plus 4%. And as you well know, we have advances coming from these bookings. You also mentioned modernization and you are totally right, modernization working capital is pretty similar to New Equipment, it's at the end an installation project, and we also get advances from those projects.

And last but not least, New Equipment sales are moderating, and there is a component of the transition of our collections activity to a third party. We have recently outsourced this process to a third-party partner. We have seen a performance not at great levels so far, but we see improving going forward, and we are confident that with all of this conversion rate in the year is going to be about 90%, and by 2026, we should be back to 100%.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

That's great. Thanks, Cristina. And then just my quick follow-up would be on the maintenance portfolio in the Service business. I think based on your comments, it looks like China will comprise maybe half, or almost half of your maintenance portfolio unit expansion in 2025. So just wondered if there was any update around the Service pricing and Service margin dynamics within China, please?

Judith F. Marks

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

A

Yeah, I don't think you will see China approach half of the portfolio growth next year, but we'll get back to you on that over time. You know, we're very pleased with the growth we've had, but again, with this focus on the growth now being able to convert to Service, we're being a little more disciplined as we go, so I would say that.

In terms of Service pricing, again, with that discipline comes a little bit more focus on which tier cities we're going to serve, so we're not trying to cover the broader spectrum of countries. And if you look at where a lot of the property sequential improvement is, Tier 1 cities are doing the best and the further out you go to Tier 5 and beyond, they're not.

So, you know, we do have agents and distributors who can cover that if they choose, but we are – you know, as part of the China transformation, we've merged our two Service brands to make us more efficient and productive, so that our Service contribution in China continues to improve. That will happen through density and it will happen through us, you know, with our two brands now being able to Service and have shared routes or even improved coverage, we think we're going to see that improvement come through in 2026 as well.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's great. Thank you.

Operator: This concludes the question-and-answer session. I'll now turn to Judy Marks for closing remarks.

Judith F. Marks

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

Thank you, Sarah. As you've seen, our Service flywheel is performing. This performance momentum is across the board in both segments and all regions. With a growing Service portfolio approaching 2.5 million units and an accelerating modernization business, we're confident we'll continue to deliver attractive and sustainable shareholder value for the remainder of this year and beyond. Thank you for joining us today. Stay safe and well.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.