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Otis Worldwide Corp. (OTIS)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' Fourth Quarter 2025 Earnings Conference Call. This call is being carried live on the Internet and recorded for replay. Presentation materials are available from 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, Krista. Welcome to Otis' fourth 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. 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. 2025 marked our fifth full year as an independent public company, a milestone that reflects our resilience and leadership in shaping the future of urban mobility. At the heart of this success are our 72,000 colleagues worldwide whose dedication to our purpose has made this possible. Every day, we move 2.5 billion people safely and reliably and maintain approximately 2.5 million units across the globe, earning the trust of customers and passengers alike. That trust remains our highest priority.

This year, we achieved multiple important milestones, ending the year with strong momentum heading into 2026. We secured record modernization orders, building an unprecedented backlog, and our new equipment backlog grew. We achieved record adjusted free cash flow of \$817 million in the fourth quarter, reflecting our continued focus on working capital efficiencies and collections.

We continue to grow the largest maintenance portfolio in the industry. We successfully executed the UpLift program and completed our China transformation initiatives, including buying out the minority shareholder of one of our joint ventures in China, Otis Electric, while driving operational excellence across our business.

For the year, we generated \$1.6 billion of adjusted free cash flow and returned approximately \$1.5 billion to shareholders through dividends and share repurchases while investing approximately \$100 million in targeted bolt-on acquisitions to strengthen our service portfolio and expand our presence in key markets. With these results, our strong backlog, and the largest maintenance portfolio in the industry, we are confident that our strategy will continue to deliver attractive results in 2026 and beyond.

Moving to slide 3. Otis closed the year with solid performance in the fourth quarter, driven by our service-driven business model. Organic sales grew 1% in the quarter with Service up 5%, including broad-based growth across all lines of business. Maintenance and repair grew 4% while modernization increased 9%. Adjusted operating profit margin expanded 70 basis points, driven by a 100-basis-point improvement in Service margin. We delivered double-digit adjusted EPs growth in the quarter, up 11%, which was the highest level this year and our strongest performance in the last six quarters.

At approximately 2.5 million units, the largest in the industry, our maintenance portfolio grew 4% for the 14th consecutive quarter, allowing us to grow and invest in our global service network and demonstrating the heart of our flywheel strategy. Modernization was a standout in the quarter as orders increased 43%, and we ended the quarter with the backlog up 30% at constant currency, the highest since spin, and positioning us well for 2026.

We are driving meaningful modernization growth through our industrialized manufacturing and installation capabilities and our commercial strategy, including phased packages that limit disruption and provide budgeting options for our customers. The tremendous modernization opportunity ahead remains evergreen as by the time all of the aged units are modernized, they will be ready to be refurbished again.

Quarterly adjusted free cash flow reached \$817 million, another record since spin, reflecting our continued focus on collections and working capital efficiency, and we continue to be an innovation leader. For example, in November, at the eighth China International Import Expo, Otis unveiled Gen3 Comfort for residential modernization; SkyRise MOD and Link MOD for scalable high-rise elevator and escalator modernizations; an upgraded Smart Cab; and new AI tools, including the Otis AI Inspection Robot and the Otis AI Agent to enhance safety, diagnostics, and real-time collaboration. These solutions bring AI-driven safety, connected service

capabilities, and enhanced accessibility to customers and passengers, supporting urban renewal and aging communities.

We also recently launched our Gen3 product family in EMEA. Gen3 builds on our Gen2 platform and come standard with Otis ONE, our Internet of Things connectivity solution, enabling predictive maintenance, real-time health monitoring, and remote intervention, which improves uptime and service quality. These products complement Otis Gen360 and comply with the latest and most stringent safety standards, while providing customers with smooth, comfortable, and digitally connected rides in stylish cabins that can be customized to meet their unique needs.

Our Otis ONE connected units continue to grow globally as we approach 1.1 million connected units, providing predictive maintenance, data-driven proactive repairs, and valuable application of AI for productivity and customer value. The growing connectivity is also driving subscription revenue, which increased 35% in 2025.

Turning to the full year, Otis delivered solid organic Service sales growth up 5% and expanded adjusted operating profit margin by 40 basis points. Since spin, we have improved margin by 30 basis points or more each year, underscoring our steady operational progress and a disciplined focus that enables consistent delivery. Adjusted EPS grew 6%, and we generated approximately \$1.6 billion of adjusted free cash flow for the year. This strong cash flow enabled us to return \$1.5 billion to shareholders through dividends and share repurchases. With a positive New Equipment backlog at year-end and with modernization backlog at an all-time high, this level of free cash flow conversion should be sustainable.

Turning to our orders performance on slide 4. Orders for combined New Equipment and modernization increased 10% during the quarter, driven by solid performance in EMEA and the Americas. Our total backlog at constant currency grew 8% and when excluding China, the increase was 14%. New Equipment orders at constant currency declined 2% in the quarter. We saw strength in EMEA up mid-single digits, driven by growth in Western and Southern Europe and in the Americas which also increased mid-single digits. This was offset by a high-teens decline in Asia Pacific due to a tough comparison. We continue to see improvement in China which declined mid-single digits in the quarter and in the second half in line with our expectations. At constant currency, our New Equipment backlog increased 2% year-over-year and excluding China, it grew 9%.

Modernization closed the year exceptionally well, delivering the highest quarterly order since spin and surpassing the record we set in Q3 of this year. Orders grew 43% at constant currency, with over 100% growth in EMEA, over 20% growth in the Americas, and high-teens growth in Asia Pacific. We ended the quarter with a modernization backlog up 30%, reinforcing our view that we remain in the early stages of a multiyear modernization cycle supported by the aging global installed base.

Our Service portfolio grew 4% in 2025, bringing it approximately to 2.5 million units and strengthening our leading position globally with low-teens growth in China, high-single-digit growth in Asia Pacific, low-single digit growth in the Americas, and approximately flat performance in EMEA.

Recaptures and cancellations remained roughly net neutral for the year, making conversions the primary driver of portfolio growth, consistent with past years. We ended the year with a stable retention rate outside of China, enabled by our ongoing focus on investment and service excellence. This represents an improving trend in our retention rate, excluding China, as anticipated. As you know, the Chinese market exhibits structurally higher churn due to competitive dynamics and shorter contract duration.

Our global teams executed well this quarter, securing strategic customer wins that reflect the strength of our solutions and the trust our customers place in Otis. As we install, service, and modernize their elevators and escalators, we deepen relationships and build loyalty that supports long-term recurring revenue growth.

In the Americas, Otis secured a major new equipment project in Dallas to provide 39 elevators for a new pediatric hospital developed by Children's Health and the University of Texas Southwestern. The scope includes 26 SkyRise units and two Gen3 elevators with our Otis ONE Pro connected service platform. This project reinforces Otis' role in delivering advanced vertical transportation for the critical health care infrastructure.

In China, Otis was selected to supply more than 490 heavy-duty public escalators for Shanghai Metro Line 19. These escalators are equipped with sensors that enable real-time remote performance monitoring. The new line will span 29 miles and include 34 stations, and we are proud to continue our long-standing relationship with the Shanghai Metro where Otis already supports approximately 2,700 elevators and escalators across 13 lines.

In London, Otis won a comprehensive service and modernization contract program for 172 escalators across the London Underground, bringing the total number of units we service for transport for London to more than 300. Our teams will maintain, refurbish, or replace units, ensuring safety and reliability for equipment that operates up to 20 hours a day and supports 1.2 billion annual passenger journeys. Building on a legacy that began with the first Otis passenger escalator at Earls Court in 1911, Otis continues to deliver trusted expertise and innovation for urban mobility in the capital of the United Kingdom.

In Kuala Lumpur, Otis has secured a landmark New Equipment project at Armani Hallson KLCC, delivering 26 SkyRise elevator systems featuring our Compass 360 Destination Management technology, Otis ONE IoT solution and eView smart screens to enhance passenger experience. Working with Armani Group and project developer, Vestland, this collaboration brings advanced vertical mobility and innovative design to one of Malaysia's most prestigious developments.

Turning to our fourth quarter results on slide 5. Otis delivered net sales of \$3.8 billion, with organic sales up 1%. Adjusted operating profit, excluding an \$18 million foreign exchange tailwind, increased by \$29 million. Adjusted operating profit margin expanded by 70 basis points to 16.6%, driven by strength in Service margin, which increased 100 basis points in the quarter. Adjusted EPS grew approximately 11% or \$0.10 in the quarter, driven by strong operational performance, favorable foreign exchange rates, and a lower share count.

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

Cristina Méndez

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

Thank you Judy. Starting with service on slide 6. Service organic sales grew 5% in the quarter with growth across all lines of business as our service flywheel continues to deliver solid top line results. Maintenance and repair organic sales grew 4%, with maintenance driven by 4% portfolio growth and 3% positive price, partially offset by mix and churn. Repair growth was solid, up mid-single digits, but slightly softer than our expectations heading into the quarter as we prioritized investments in service excellence, which should drive improved retention over time. These investments, together with our growing portfolio and continued hiring of field mechanics, should accelerate maintenance and repair top line growth in 2026 and beyond.

Modernization organic sales grew 9%, with notable strength in China where sales more than doubled. And as Judy mentioned earlier, we are pleased with the progress in modernization orders and our record backlog, up 30% at constant currency, which establishes a solid foundation for sustained modernization growth in 2026.

Note that our strong modernization orders in the quarter include the large transport for London project that Judy mentioned earlier. We are just scratching the surface of the modernization opportunity ahead. As units from past construction cycles continue to age, they should create a durable multiyear tailwind for modernizations.

Service operating profit of \$638 million increased \$49 million at constant currency with higher volume, favorable pricing, productivity, and gains on asset sales more than offsetting higher labor costs and mix and churn. Operating profit margins expanded 100 basis points to 25.5% in the quarter, the strongest margin expansion of the year, matching our record Service margins from last quarter. This performance reflects the continued strength and the discipline of our service execution.

Turning to New Equipment on slide 7. New equipment organic sales declined 6% in the quarter as growth in EMEA and Asia Pacific more than offset by decline in China and the Americas. EMEA sales grew 6%, driven by strength in the Middle East and Southern Europe. Asia Pacific grew low-single digits, supported by solid growth in India and Japan, partially offset by weakness in Korea. The Americas declined 5%, slightly below our expectations due to timing of project execution. However, with a strong orders performance for six consecutive quarters, the region's growing backlog provides a clear line of sight for a return to positive New Equipment sales growth in 2026.

Overall, our total New Equipment backlog increased 2% after seven consecutive quarters of decline. And excluding China, New Equipment backlog grew 9%. And while China remains down on a year-over-year basis, we are encouraged by the improving order strength that Judy mentioned earlier.

New Equipment operating profit of \$47 million declined \$15 million at constant currency, and operating profit margins declined 110 basis points to 3.6%. As mentioned in previous quarters, the New Equipment margin rate is more sensitive to small variations in operating profit given the smaller size of the business segment. The operating profit decline was driven by lower volumes, unfavorable price, tariff headwinds, and mix. These were partially offset by productivity, including the benefits of restructuring actions.

Moving to the full-year 2025 adjusted EPS bridge on slide 8. 2025 adjusted EPS increased \$0.22 to \$4.05, up 6% year-over-year, reflecting solid operational execution and the continued contribution from our Service business. Below the line, lower share count and non-controlling interest supported EPS growth, more than offsetting higher interest expense. Note that the operational bar on this chart now includes the impact of tariffs which was previously combined with the impact of foreign exchange rates, as tariffs become part of the baseline for 2026. Additionally, we finished the year with our best fourth quarter cash flow since the spin, supported by excellent collections and sustained working capital execution.

Overall, we closed the year with solid operating performance, confirming the resilience of our strategy and service model. With our record modernization backlog, continued strength in maintenance and repair, and a growing New Equipment backlog, we are well-positioned to deliver attractive growth again in 2026.

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

Judith F. Marks

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

Thanks, Cristina. Starting on slide 9 with the market outlook. We expect the global New Equipment market outlook to continue moving towards stabilization in 2026. Within the Americas, in 2025, the region grew low-single

digits with mid-single digit growth in US and Canada, driven by demand in residential, health care, and data centers. We expect this positive trend to continue this year.

In EMEA, the market grew low-single digits in 2025 with notable strength in Spain, Germany, and the Middle East, partially offset by declines in Italy and France. We expect EMEA to continue to grow this year, driven by broad-based growth in both Europe and the Middle East.

Asia Pacific is anticipated to accelerate in 2026 after growing low-single digits in 2025. We anticipate this acceleration to be driven by steady growth in India and Southeast Asia, a slight improvement in Japan, and stabilization in Korea. Within China, the pace of decline moderated in the second half of 2025 in line with our expectations, and we expect the trend to continue improving. In total, we expect Asia to decline in 2026.

Turning to modernization. As of the end of 2025, there were almost 9 million units in the 23 million unit global install base in the prime age for modernization. This population includes units over 15 years old in China and over 20 years old in the rest of the world. These aging units drove a 13% increase in the modernization market in 2025 in dollar terms, with synchronous growth globally. We expect this trend to continue for the foreseeable future due to past construction cycles and continued aging of the installed base.

Turning to our sales outlook on slide 10. Total organic sales are expected to increase low- to mid-single digits, driven by accelerating growth in our Service segment, as well as moderating declines in New Equipment sales, which are expected to be down low-single digits to flat. Within Service, we expect mid- to high-single digit growth with acceleration in both maintenance and repair and modernization, building on the strong ramp-up in the second half of 2025. Maintenance and repair should benefit from this year's mid-single digit portfolio growth, solid pricing and strong field performance. All of our regions are now running under the UpLift operating model with clear focus on service excellence and customer centricity.

In addition, in 2025, we continued to ramp up our resources, adding approximately 1,000 field professionals in anticipation of continued portfolio growth and strong demand for repair work. The strong repair demand is being driven by the same aging of the installed base that's supporting modernization growth. Within modernization, revenue growth should be driven by execution of our robust year-end backlog and continued aging of the install base. Together, we expect a 1- to 2-point improvement in our Service organic growth rate over the 5% Service organic growth rate achieved in 2025.

New Equipment organic sales are expected to be down low-single digits to flat. We finished 2025 with a strong backlog that, excluding China, was up 9%. And in 2026, we should see growth in all regions, excluding China, with notable strength in Asia Pacific and with Americas returning to growth. The backlog in China remained down significantly as of year-end which will weigh on sales, particularly in the early part of the year.

As a reminder, backlog conversion in China is typically around nine months. Therefore, a faster market recovery may positively impact our sales prospects due to the book and ship volumes. In addition, while New Equipment sales in China are expected to decline this year, we have seen a significant improvement in China new equipment orders in the second half of 2025, an encouraging trend.

On an actual currency basis, we expect total net sales of \$15 billion to \$15.3 billion. With this accelerated organic sales growth, we expect adjusted EPS to grow mid- to high-single digits for the full year.

I'll now pass it back to Cristina to review the 2026 outlook in more detail.

Cristina Méndez

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

Thank you, Judy. Turning to our financial outlook on slide 11. We are expecting another year of solid profit growth, driven by the strength of our service-driven strategy. At constant currency, adjusted operating profit is expected to grow \$60 million to \$100 million, accelerating profit growth on the back of a stronger top line. As our New Equipment segment is stabilizing and modernization continues steady growth trajectory, we should be able to sustain this level. And given these dynamics, we expect adjusted free cash flow of \$1.6 billion to \$1.7 billion this year.

We will continue with our shareholder-oriented capital allocation strategy, targeting a dividend payout ratio of 40% and executing approximately \$800 million share repurchases. Note however, that we will remain flexible with other potential investments, including bolt-on acquisitions, which may impact our capital allocation in the year.

Turning to slide 12. We have delivered strong profit growth every year since the spin, driven by sustained Service top line growth and consistent margin expansion, which increased 350 basis points over the period. As we look to 2026, we are confident our service-driven strategy will continue to support this trend. We remain committed to accelerating Service top line through volume and value growth in maintenance and repair, while also capturing the tremendous modernization opportunities ahead.

We will continue to drive productivity to increase in density and digital capabilities, while also capturing the year-over-year cost benefits from the transformation programs finalized in 2025. These positive contributors will partially be offset by wage inflation, mix, and churn. And in New Equipment, we expect small headwinds from commodities although relative to our annual spend in this category, this impact is expected to be modest. As we execute the New Equipment backlog, we expect lower margin to flow through the P&L.

In Service, we continue to invest in service excellence as we have seen very good results in customer satisfaction, demonstrated by the stabilization of our retention rate in our most valuable markets. We are confident that these investments will support continued strength in the top line.

Looking at the first quarter, we expect service top line to ramp up sequentially with first quarter Service organic sales growth of approximately 6% on the back of a strong execution in repair and modernization. New Equipment top line is expected to be down in a similar range as the fourth quarter, so we anticipate it will improve as the year progresses on the back of the positive backlog at year-end. EPS in the quarter is expected to be around flat.

Turning to slide 13. 2025 has been a year of transformation of our operating model. We have navigated external macro and geopolitical challenges while building a foundation of service excellence and customer centricity. In 2026, we are poised and ready to accelerate our top line and deliver strong operational performance. Organic sales growth is expected to improve from flat in 2025 to up 3% in 2026, at the midpoint of the guide. The improvement is driven by acceleration of both maintenance and repair and modernization, coupled with stabilizing New Equipment sales.

Constant currency adjusted operating profit growth at the midpoint of the guide is expected to increase over 70% compared to last year. This is an indicator of our improving operational performance due to an accelerating top line, stabilizing retention rate, smart pricing, and disciplined execution.

Taken together, we expect mid- to high-single digit growth in adjusted EPS. While at the midpoint of the guide, this year's adjusted EPs growth is similar to last years, our operational performance is accelerating as we capture

the benefits of past investments and our cost savings initiatives while liberating the industry's largest maintenance portfolio, our digital capabilities, and our best-in-class productivity.

We are excited about the opportunities in front of us, and we have the resources, talent, and strategy in place to capitalize on them in 2026. Longer term, we remain confident that our service-driven strategy will continue to deliver sustainable shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Amit Mehrotra with UBS. Please go ahead.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Thanks. Morning, everybody. Appreciate the question. Judy, maybe you can talk about growth expectations for maintenance and repair within the Services (sic) [Service] (00:30:03) segment for 2026 and then how you expect service profits to trend relative to the mid- to high-single digit revenue growth outlook in that segment. And then maybe related to that, anything you could talk about on the progress you're making on retention and churn as well. Thank you.

Judith F. Marks

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

A

Sure. Thanks, Amit. Let me talk to the growth expectations, I'll ask Cristina to talk to the profit expectations, and then we'll circle back on retention and what we're seeing. Listen, we ended the year obviously at a 5% Service top line growth, and we were targeting a little bit higher on repair although we did see our repair trajectory stabilize and actually be much better in the second half than the first half. As we go into this year, we are expecting our repair rates to ramp up to be 10% plus, so that will bring maintenance and repair up higher, and we're actually expecting at least 1-point gain in maintenance as well. Take that with modernization backlog conversion, and that's why we felt that we'd be 1 to 2 points higher, and we have line of sight to that with our backlog. Cristina?

Cristina Méndez

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

A

Yeah. And, Amit, on the profit and margin rate side, so this acceleration of top line should also flow through profit, and we expect an acceleration of Service contribution in the year. In 2025, we contributed VPY, versus previous year, \$150 million at constant currency. In 2026, this is going to be \$200 million. So, very consistent with the acceleration of dollar profit strategy that we have been telling over time.

And look, when you look back, we have delivered a very strong performance in our Service business consistently in the last five years. We have grown Service margins by 40, 50, then 60 basis points every year. We are expecting margin expansion again in 2026. This is on the back of growth in volumes. We also are improving our price capabilities, being much more adapted to customer demands, much more smart pricing. And we also have the benefits of productivity and the UpLift run rate.

On the headwind perspective, we have the investments we are placing in the stabilization of the cancellation rate that Judy will talk to in a minute, but we are very positive about the results of these investments in 2025. So, we will continue selectively investing in customer excellence. All in all, very strong Service performance expected for 2026.

Judith F. Marks

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

A

Yeah. And listen, I couldn't be more pleased with our Service teams, and I think we are. I'm convinced we're making the right investments in service quality and service excellence. It matters to our customers. And it will, as we've said all throughout 2025, make a difference in retention rate in 2026, 2027, and 2028. Our goal in 2025 was to stabilize that retention rate after seeing a decline from 2024 to 2025. And ex-China, we're pleased to say that we've done that. And now, we expect small growth to start yielding in 2026.

But what I would tell you is we're very focused on several key markets. We want to ensure that we are retaining the right units in our portfolio. Having the largest portfolio is wonderful at 2.5 million units, but we want to make sure that every unit is not just accretive, but we continue to retain the key units that have the largest profit contribution.

In the past, we've grown in more of the emerging markets. So while the portfolio may not grow at the same rate in 2026 at that 4% that we're very proud of, it will grow in terms of the value it contributes. Where you'll be able to measure that, Amit, and everyone listening, is in our maintenance revenue. You'll be able to measure it in our repair revenue, which is where it'll show up, and then we'll share retention trends as we go through the year.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

And just as a quick follow-up on the New Equipment margins, maybe just a question on how much do you think this trajectory is structural versus cyclical? Obviously, the China market was just your highest-margin New Equipment market [indiscernible] (00:34:34), so maybe it's just cyclical. But obviously, there's a need to capture more service revenue. So, I'm just trying to understand the price competition there and whether you can bounce that trajectory back up if you get some macro tailwinds.

Cristina Méndez

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

A

Yeah. No, look, Amit, on the New Equipment side, the New Equipment segment is a very small piece of our business, and it will become smaller as we continue executing our service-based strategy. The margins are going to be a headwind in 2026 because of the ongoing decline of volumes, mainly coming from China. And as you know, China is our highest-margin geography. We have the benefits from the China transformation, restructuring, and UpLift, but most of the benefits are in the baseline. The run rate from China transformation is \$20 million smaller in the year-on-year basis than in 2025.

Commodities are also a small headwind, very small in the broader scheme of things on annual spend in this category, but it is a matter of navigating through the backlog and stabilizing the New Equipment segment. In margin rate terms, we expect 2026 to land at the same rate of Q4 2025.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Got it. Thank you. Good luck, everybody. Appreciate it.

Judith F. Marks

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

A

Thank you.

Operator: Your next question comes from the line of Joe O'Dea with Wells Fargo. Please go ahead.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Thanks for taking my questions. Can you add a little bit more color around the Service margin in the fourth quarter? And when you get 100 bps year-over-year growth, think about mod as being kind of the lowest margin within that portfolio, repair being the highest. Repair was a little lighter than you expected. And so when you think about maybe some of the mixed components within that that wouldn't be helpful, and so what you're doing to drive the margin expansion in each one of those individual pieces and specifically, what you were able to achieve in mod margins.

Judith F. Marks

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

A

Yeah. Let me let Cristina go through some of the specifics, Joe. But let me start by saying when you think about it, as we've seen this impending opportunity in modernization, we've known that that has a potential obviously to be dilutive to the Service segment. The good news is with the repair volumes growing, and they ended the year at 5%, they're still growing at a larger – even though the rate is 5%, it's a larger bucket of core revenue to grow on than mod.

I will tell you though we strategically have focused on modernization, seeing this large market that was going to continue to grow, as we call it, almost evergreen. And so, we industrialized our modernization approach. We've integrated it into many of our New Equipment factories. We have a common supply chain, so we're getting scale benefits. We have dedicated and specialized installers, specialized sales reps. And now that the modernization scale is starting to emerge, we're seeing the margins grow as well.

So, we're pleased to say, again, the modernization margins are getting much closer to the 10% medium-term target we set. Originally, we had talked about first surpassing New Equipment margins. We've done that. Now, we're at the point where it should be more than double New Equipment margins even if the New Equipment margins are typically around 5%. So, we came very close to that as we ended the year. And I think with more scale, you'll see more of that.

Just one specific callout, though, on modernization revenue growth, we did see it pretty much everywhere but our China team, because of the mod bond stimulus program, had significant orders in the third quarter, and their orders were up over 35% for the year, pretty flat in the fourth quarter because they happened earlier this year. But our mod revenue in China, Sally and the team really turned the revenue very quickly. And that revenue grew 100% in the fourth quarter year-over-year and was up 75% full year. So, mod margins look strong in China, just like the New Equipment margins do, but let me let Cristina add some more comments.

Cristina Méndez

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

A

Yeah, Joe. So, I can give you more color of the components below the 100-basis-point margin expansion in Service, and let me start by saying we are very pleased with this strong performance and encouraged by the

ability to continue growing service margins in the future. So as Judy pointed out, repair accelerated and repair has the highest margin within the Service segment. Modernization margins are ramping up. We increased 50 basis point modernization margin quarter-over-quarter, Q4 versus Q3. And there is a third component that is a onetime effect of the sale of assets of a few transaction of service centers.

This is related to our Service transformation strategy. We are changing our operating model, as you know, and we are thinking on models that will benefit customer experience by reducing lead time in the delivery of spare parts. So, we have sold a few service centers because we are outsourcing to a third party that can handle the process more efficiently, and this was \$14 million in the quarter, one, four. If we exclude this effect, Service margins will have expanded 40 basis points, which is still a very solid expansion.

Joseph O' Dea*Analyst, Wells Fargo Securities LLC*

Q

Got it. Thank you. And then is there a go-forward benefit from the transactional service centers effect such as that contribution in the quarter is a run rate contribution or was it more onetime in nature?

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

A

Yeah. That was more onetime in nature, but the benefit will be retention rates because, again, it wasn't core for us to be managing some of our own spare parts. We have a third party now that that is their business, better central location for that, for quicker and more efficient spare parts delivery, so we can get the right part to our mechanic to repair the unit in a shorter cycle time.

Joseph O' Dea*Analyst, Wells Fargo Securities LLC*

Q

Got it. Okay. And then could you just talk a little bit about the China stimulus program with a little bit of color on how that's grown. And so, if we go back to kind of when it started and the size of it – what the size of it was in 2025 and how you're thinking about it in 2026.

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

A

Sure. And it's still – it's young and yet it's continuing to evolve. The whole focus was actually twofold from the Chinese government when this was started in about mid-2024. It was to make living more attractive for Chinese citizens, especially those that were getting older in some older residential buildings, and also to drive consumption as part of the government's focus on driving consumption in a deflationary environment.

In 2024, the size of the program was about 80,000 units that could be modernized, again fully funded by the government, but needing to be supported by local governments where they would put forward the number of units they wanted to do. That ramped up to 120,000 in 2025. And I think our team, from a share perspective, without giving any numbers, did an excellent job capturing the market due to our customer connections, our agents and distributors, and our relationships. And we did deliver all of our units in-year, which is a key element of the program, and that's really what drove it. Again, full stimulus, fully funded by the government.

The government itself has said that program will continue in 2026 at at least the level comparable to 2025. We've not seen if it's going to increase yet. We're obviously watching signals because right now, it was a one-value program where we would fit solutions to fit that RMB 150,000. We believe that there's been a rational assessment

of, well, if you have taller buildings that need more content and more equipment, maybe we should have different levels versus just one value.

So, we think it's going to continue to evolve, but we view it as positive in 2026. It should look at least like 2025, and our Otis team is prepared to capitalize on that.

Joseph O' Dea

Analyst, Wells Fargo Securities LLC



That's helpful detail. Thanks a lot.

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

Nick Housden

Analyst, RBC Europe Ltd.



Yes. Hi. Thank you for taking my questions. My first one is on modernization. So, the mod backlog is up 30%, which is a very strong number, and you've discussed how you've been industrializing your modernization business. So, it'd be good just to kind of understand how you think about the annual growth potential in that business in the next couple of years because I don't think any of us are expecting sort of 30% numbers. But just thinking about how you kind of pencil in the acceleration in that business.

Judith F. Marks

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



Yeah. Nick, thank you for asking. We've seen this market starting to grow, and now it's growing at some pretty healthy rates. I shared in my opening comments we think the market segment grew 13% in 2025. And you could tell from the arrow, that's going to continue to go up. It's not as well-instrumented in terms of segment measures as the New Equipment market, where most of the providers share information to a neutral third party. So, some of this – most of this is actually based on our own estimates.

But we are seeing demand increase. We originally started in this market primarily with full replacements but in lots of discussions, remember, half of the install base is residential, multifamily across the globe. In so many discussions with our customers, they were looking for alternative ways to phase this in over time.

So earlier in the year, we introduced our Arise package set in EMEA which has the largest population of aged units because – just due to the aging in Europe and the building construction cycles. And between the full replacements, the mod bond stimulus in China and, again, these partial replacements that let people with our tools budget for this and do it over multiple years and have less disruption in office buildings and other places, we are seeing this market pick up significantly. If you look even this year on our orders, first quarter, we were up 12%; second quarter, 22%; third quarter, 27%; and 43% in the fourth quarter.

I mentioned transport for London. That is a major several decade-long project between maintenance and modernization that we'll be doing for the London Underground. So, we have a combination of volume business and major projects business. So, I don't believe you'll see us convert that 30%, I know for sure, in 2026 because there are multiyear major projects in there, too. But we see a steady growth rate in the market, and it is growing in every region and every country where we do business, which gets us excited.

Lastly, just in terms of the how, we did specialize our sales force for this. We created packages so it's easier to show the value proposition for our customers. We provide capital planning tools so they can get ready financially.

Then we have the operations side ready, as I mentioned earlier, and then the installation side. What we want to do is become very productive and have a lot of – and I think we are getting through the learning curve with our installation crews, and then we believe this will then have the ultimate benefit of the conversion and the retention on Service.

So for us, modernization, it's another lubricant on the flywheel, but it will drive its own significant revenue stream and margin and, more importantly, profit contribution in the near term. And I think planning it in the teens, if not more, is an appropriate place to plan.

Nick Housden

Analyst, RBC Europe Ltd.

Q

That's great. Thanks. And then my second question is, I was just wondering if we could maybe unpack the EPS outlook a little bit more. It looks like it's slightly below what the market was expecting in mid- to high-single digits. So, I'm just wondering what it will take to get back to the kind of 10% plus ambitions that you've previously discussed at Investor Day. Mod growth this year should be good. You've mentioned repair, I think you said growing 10% this year. There's an FX tailwind as well. So, kind of seeing potentially only mid-single digit EPS growth in that guidance maybe looked a little conservative to me. So, just curious to hear your thoughts there.

Judith F. Marks

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

A

Yeah. I will have Cristina – listen, we chose to be conservative, I just want to be very transparent about that, because we just want to make sure that what we commit, we deliver. And anything we continue to do, which we'll be happy to talk about above and beyond that, we will deliver that to our shareholders as well. But we did choose to start conservative for the year.

Cristina Méndez

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

A

Yeah. And from the components perspective, the midpoint of the guide, Nick, is 6% EPS growth. That is around \$0.23. The operational component of that growth is much stronger in 2026 than in 2025. We are increasing from \$0.09 year-over-year growth in 2025 to \$0.15 in 2026, and this is on the back of the acceleration of operating profit in Service. As I said before, Service operating profit is going to grow, \$200 million at constant currency in the year.

On the other side, we have a FX that is a little bit favorable. We are talking about \$0.08 in 2026, and it can be even more favorable because we are assuming euro at \$1.18. And yesterday, the spot was \$1.20. So the stronger the FX, the more EPS we will deliver.

Below the line, we expect this to be roughly flattish because we have the headwinds of the interest rate that is essentially the refinancing of the debt that comes mature, and the interest rates are now higher than five years ago. But we have the ongoing benefits from share buyback, \$800 million guided for the year, and a little bit positive on the tax rate. We are expecting to finish the year at 24.5%.

Nick Housden

Analyst, RBC Europe Ltd.

Q

Great. Thank you very much.

Judith F. Marks

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

Thanks, Nick.

A

Operator: Your next question comes from the line of Chris Snyder with Morgan Stanley. Please go ahead.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you for the question. I wanted to ask about maybe the margin opportunity if we look beyond 2026. The company has delivered really impressive margin expansion over the last two, three years without much help from the market. But a lot of that was driven by the restructuring programs, both the UpLift savings and the China transformation savings. I think over the last 2024 to 2026 you guys have in the slides that it was, I think, \$240 million. So I guess my question is, what is the ability here to expand margins as we look beyond these restructuring programs and just kind of more on a core operational basis for the business? Thank you.

Q

Cristina Méndez

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

Yeah, Chris. So first, let me comment on the restructuring program because, definitely, they have been a tailwind in margin. But we have also navigated a significant deterioration of the New Equipment market worldwide, particularly in China. So when you look at our top line, New Equipment has been a drag in growth of \$400 million-ish [ph] in 2024 – in 2025 (00:51:29), and we are expecting to trend towards stabilization, still around \$100 million-ish this year, although it can be better depending on China because China has order book and ship. So, it's true that we have those tailwinds, but they have also helped us to navigate the situation regarding new equipment.

A

On the other side, I want to emphasize the strength of our Service business. On Service, we continue delivering margin expansion beyond UpLift, and that's thanks to the increased productivity. We are proud to be best-in-class in the industry in our productivity. We are also connecting units with IoT more than 1.1 million – or 1.1 million units connected in 2025. And as we continue growing the portfolio, we will have more density and more productivity.

In addition to that, pricing should also help to expand margin rates because pricing has a higher flow-through in profit. And we have a few pricing actions, again, very targeted to adapt our price to customer demands that will benefit in 2026 and beyond.

Judith F. Marks

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

Yeah, Chris, I would just sum it up to say without top line growth, we've achieved this margin expansion and this profit contribution. Just think what we can do, not just think, our plan is to drive growth in our company. You are going to see – we did not have top line growth. We were flat this year. A lot of reasons, but it doesn't matter. We were flat. We are obviously showing we're going to have top line growth in terms of sales. And with that, that profit fall, that flow-through will be visible.

A

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you. I really appreciate that. If I could maybe follow up on the conversion of modernization order. So, mod revenue has obviously been very good, but orders and backlog have been even better for a while now. So I guess kind of my question is, can you just kind of maybe talk about that mod conversion cycle? I would imagine it's

Q

faster than the New Equipment market but any color there? Because it does feel like backlog and orders have been running ahead of revenue for some time now. Thank you.

Judith F. Marks

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

A

Yeah. You're accurate, Chris. And we're just – we continue to build up that backlog. In our guide this year, the mod revenue will be in the teens, certainly 10% plus, as the volumes accelerate. That works really – your assessment on, you think it's quicker than New Equipment, it is when we're doing a volume mod, a small mod, certainly a partial mod, but even a volume full mod, we can do that relatively quickly. But I would tell you that when we go to not just major projects but even office buildings, commercial locations, hotels where there's a bank of elevators or multiple elevators or infrastructure where there's multiple, we only can really take one or two out-of-service at a time. So even though we're not held up by a construction cycle or a general contractor, because we're the general contractor, it's about interruption in the building.

So some of these major projects actually take longer than a New Equipment job as do some of the ones where we have kind of a common bank. If you're in a hotel, you're only going to modernize one at a time so that you don't disrupt traffic flow or have a lot of general work going on. So, it's a little different mix than New Equipment.

On the cash side, it looks good because we get the advance payments and we bill as we go. On the revenue side, it's – we'll do POC accounting in terms of how we do the sales. But there is this blend and in the – we are pushing hard, all of our regional leaders know, all of our field leaders know we're pushing hard to convert the volume as quick as possible so that we can get ready for more, and it should be in the teens in terms of 2026 and beyond.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Judy, I very much appreciate that.

Operator: Your next question comes from the line of Jeff Sprague with Vertical Research Partners. Please go ahead.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey. Thank you. Good morning, everyone. Hey, Judy, I was wondering if you could just dial us in a little bit more precisely on China just to sort of level set the base and what is the actual expectation for 2026. You just kind of spoke to it directionally. But maybe just how the market ended in units, what you're actually expecting for the 2026 decline, and is it sort of a decline in the first half and then a stabilization in the back? Any color there would be helpful.

Judith F. Marks

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

A

Yeah. Happy to, Jeff. So, it's interesting. This time last year, we sat here and we said – and I said that the market would start its stabilization as we got to the second half, and that is indeed what we saw. The market in 2025 was down 15% for the first half, 10% for the second half. We believe the market ended at about 370,000, if I round up just a little units for 2025. You know we've changed our strategy there. But let me finish on kind of where we see the market this year.

Our view is that – as opposed to if you take between the 15% and 10%, let's say 2025 was 13% down, we think this year will be about 8% down. We think in the first quarter, maybe second quarter, we'll see that similar minus 10%, and we think we'll end the year closer and the market being down to minus 5%. So, you can do the math in terms of it being down about 8% in terms of the segment.

In terms of our strategy and what we've done, listen, I think the team has done a phenomenal job in the fourth straight year of decline. Our Service, in the fourth quarter, we continue to grow our Service business, both maintenance, repair. You heard me talk about mod earlier. Service now, as we exit in the fourth quarter, was 47% of our China sales which was 42% in the third quarter. And you'll recall, at spin, it was in the mid-teens. So, we have been going through this transformation of our China business to not be as dependent on that.

China, in terms of global revenue, China represents 11% for the year of our total Otis revenue. It was at 12% in the fourth quarter, and it's now 19% of our New Equipment revenue in the fourth quarter versus 21% in the third quarter. So, the rest of the business is growing healthy. Our China team has done an amazing job at being able to stabilize our business, and they've added connected units. They've continued on productivity. And we're really interested in hearing what's going to happen in the March meetings that are happening after the 15th Five-Year Plan was announced at the fall plenum.

We believe that in dilution, focus will help with competitive pricing, hopefully starting to stabilize that. The mod bond will help us, and we believe there will be a continued focus on how do you get consumption started in the property markets. But that's kind of the China picture for you, Jeff.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Yeah. No, that's great color. And then could you also just address kind of where OE versus Service margins are. Way back when, right, we used to think that New Equipment margin is actually higher than Service. I think there's some debate of whether or not that was actually the case. But you did note that China is still your highest-margin region overall. So, I just wonder if you could give us a little more perspective on that also.

Cristina Méndez

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

A

Yeah. Jeff, they remain the highest margin – the highest region in margin because we have restructured the organization to adapt the costs to the new volumes environment. On the other side, Service margins are expanding over time because seeing that they are growing very strongly in modernization. Our modernization margins are kind of at the same level as New Equipment. So as modernization goes up, in the case of China, that is going to be a tailwind in the margin rate. But, yeah, directionally in line with what we have said before. New Equipment high, Service lower but getting better.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thank you very much. Appreciate it.

Judith F. Marks

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

A

Thanks, Jeff.

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

Nigel Coe

Analyst, Wolfe Research LLC

Q

Good morning. Thanks a lot. Cristina, maybe clarify with you the 1Q guidance, is that flat with 1Q last year or is that 4Q?

Cristina Méndez

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

A

It's flat versus Q1 last year. And, Nigel, let me give you some color about the different segment. So on the one side, sales is going to continue accelerating all the year along starting in Q1. We are expecting in Service 6% sales. You may remember that last year we had a weaker Service top line growth, particularly in repair. It was 1% in Q1 last year. It's expected to be around 10%. We also have an easier compare, but we continue accelerating, while modernization will be in a steady growth on the back of the 30% backlog.

From a profit standpoint, we expect profit at actual FX to be around flat with \$20 million FX tailwinds. The reason for that is, on the New Equipment side, we didn't have tariffs last year in Q1. They came into place in Q2. You have also seen weaker execution in US New Equipment in Q4. This has been delayed to Q1. So, we have kind of a compound effect of the compare. Last time, it's moving into Q1.

On the Service side, although we continue growing the top line and the acceleration of repair is a tailwind in margin, we also have a tougher compare in contribution because of investments. You may recall that last year, we started the service excellence investments in Q2. So when you compare to Q1, we don't have that in the baseline. But overall, margin is going to be around 16% in Q1.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. That's helpful. That's what I was going to clarify that with you there. And then for the full year, you're indicating New Equipment margins down probably 100 basis points or so for the full year. I think your plan is pretty flat margins overall. So, should we think about it as, I don't know, a bit of inflation on corporates. Service margin is up 20 basis points. Is that how you think about it?

Cristina Méndez

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

A

Well, you got it right in the sense that margins are going to be around flat. But looking into the segments, as I said before, Service is going to expand margins very strongly again in 2026. Total operating profit growth for Service is going to be \$200 million. On the New Equipment side, this is indeed a headwind for us. And the reason for that is that the China transformation benefits were mainly captured in 2025, so the run rate is \$40 million in total, only \$10 million incremental run rate in 2026. At the same time, we continue executing the backlog with a more competitive price, and volumes are regularly stabilizing, but they are planned to be revenue in New Equipment low-single digit down to flat.

From corporate standpoint, we expect to be at the same level as Q4. So, Q4 is a good run rate for you to take, and you need to consider the impact of inflation. And we have some small impact of transactional effects that is related to the hedging of our intercompany activity. It's a technical thing we can cover offline, but it's essentially leaving the run rate as per Q4.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. So just to clarify, Cristina, it sounds like New Equipment margin is close to 3% for the full year?

Cristina Méndez

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

A

Yeah. I would say slightly below 4%.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. Great. Thank you.

Operator: Your next question comes from the line of Julian Mitchell with Barclays. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. I just wanted to circle back to the Service business for a second there and just trying to understand kind of if we take the total company in Service, I think you had 92% retention end of 2024. Where is that sort of ending 2025? And I think, Judy, you'd mentioned the 4% portfolio unit growth may be tough to sustain. Just wanted to understand why that's the case as you are investing a lot more in Service head count and so forth.

Judith F. Marks

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

A

Yeah. Julian, the 4% is not tough to sustain if we choose to sustain it with more emerging markets and lower contributing units. What we're trying to do is focus on growth and growth in value as well. So the retention rate actually ex-China, which we didn't share last year but actually is, we say, stable. I would say I was pleased with what we were able to do through the year. We stopped it from eroding when you think about the Americas, Asia Pacific, and EMEA. And now, we're at the point with these investments and with our customer focus where we think that will now actually become stronger, but not by a point in 2026. But it should pick up a little bit.

Obviously, China is a little different structural. But please understand, I mean, we could continue to add units to the portfolio. This is a conscious decision we're making, and it's not that 4% is going back to the 1% we had perennially, but it might be – it might start with the 3%, but it's going to be – 3-plus percent but it's going to be units that actually drive more top line in terms of maintenance value, in terms of the repair we'll get from it, and the eventual mod.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And then just wanted to put a finer point on the – how we should think about the EPS sort of phasing for the year. So, I think it's up \$0.23 for the year as a whole. That's all coming between the second and fourth quarters because Q1 is flat EPS year-on-year. Any help you could give us how to think about the phasing of that \$0.23 increase in the remaining nine months, please?

Judith F. Marks

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

A

Yeah. And I'll just remind you, this year, it was \$0.03 for the first half and then \$0.09 for Q3 and \$0.10 for Q4. So, our intent is not to have to depend on the full second half again. But there will be an increase regardless of the compares, but you should start seeing it much more in the second quarter than you did last year.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Got it.

Q

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

Rob Wertheimer*Analyst, Melius Research LLC*

Yeah. Hi. Thank you. Judy, you've touched on Service and service excellent investments a couple times. I wonder if you could just, in a general sense, talk about where you feel you are now versus where you want to be, have you gotten there and you're starting to see results, is there more investment to come, and maybe there's a margin kind of a theme attached to that question. And then I wonder if there's any new technology or new tools that are developing throughout the year that might add to your ability to lead in that segment. Thank you.

Q

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

Yeah. No, Rob, we anticipate continued productivity from our incredible now 45,000 field professionals. They represent us every day in front of customers, and they are, as I always say, the heart and soul of our company. We will be continuing to provide more tools and technology for them because the answer for us to continue growing, we cannot just instantly create new mechanics. They go through an apprenticeship. These are professionals. This is what they commit to.

A

So whether it's our robot that's doing inspections that we showed in China, other AI tools that let us handle parts identification more efficiently, even our – obviously, the application of Otis ONE, I'm so excited about where that's going in 2026 to give us better predictive maintenance and to make our mechanics first-time fix rate even more efficient. So, all of that should help us in terms of how we go about the year.

The first part of your question, I'm sorry, because I answered the...

Rob Wertheimer*Analyst, Melius Research LLC*

No, [indiscernible] (01:08:37) have you reached kind of max investment [indiscernible] (01:08:42) over the next two or three years, you start to lever it or how do you think about that> Thank you.

Q

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

Yeah, I think – well, I can tell you the investment is still underway, especially – and it's planned for 2026, which is a little bit part of the EPS bridge that Cristina took you through, because having been in this business for 172 years, we understand the value of long-term customers, and we knew we needed to improve our service delivery. So, that investment is still underway. It's happening.

A

And basically, what we're doing is we're applying more mechanics and more field professionals in locations where the performance has not been satisfactory, even though we may not be billing them, but we're trying to improve that service, retain that customer. It's an investment we think is extremely worthwhile, and it's going to continue to play out this year. And we believe the returns will be seen for many years to come.

Rob Wertheimer*Analyst, Melius Research LLC*

Q

Thank you.

Operator: Your next question comes from the line of Kyle Summers with Rothschild and Company. Please go ahead.

Kyle Summers*Analyst, Rothschild & Co Global Markets Solutions Ltd.*

Q

Hi. Yeah. Good morning, everyone, and thanks for taking my questions. I just want to start on the repair side. Could you just go into a bit more detail as to how the investments in service excellence led to the lower-than-expected repairs and then why shouldn't we see this reoccur in 2026?

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

A

Yeah. Well, all I can tell you is the repair backlog is growing which, from a financial perspective and how you look at it, you look at it positive. From a customer service perspective, you don't want to wait too long for a repair. So, we need to increase the conversion rates on our repair, and you're going to see us be more proactive repair in terms of sending out solutions for our customers before they ever experience the problem. But I'll let Cristina talk to the rates.

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

A

Yeah. Kyle, and I will add that, as Judy said, the repair backlog is growing and the demand is there. It's a matter of how we distribute our field colleagues in order to execute all the activities in the quarter that are, in the case of Service, maintenance, repair, and modernization. So as we enter the quarter, we knew how many field colleagues we had because the onboarding process is longer than three months, but we also monitor regularly the quality indicators. And as we see the need to put more field colleagues on maintenance in order to better support customer and satisfaction, we calibrate during the quarter resources from the different activities. So, it's not a backlog or a demand issue. It's a matter of calibrating resources according to the best use of them.

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

A

And I think we are getting better at that every day and every week at all of our operating territories.

Kyle Summers*Analyst, Rothschild & Co Global Markets Solutions Ltd.*

Q

Thank you. And then just on the retention rate, so obviously good to see it stabilizing outside of China. But obviously, the [indiscernible] (01:11:40) rate has still declined. Can you just provide a bit more color as to what exactly is going on in China and how you aim to stabilize the declines there? And then just adding on to that, you mentioned slight improvement into 2026. Is that for the total group or is that still ex-China?

Judith F. Marks

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

A

So listen, we expect everyone to participate in continuous improvement in everything we do, so I wouldn't just call out ex-group for improvement. There's room for everyone to improve. China is pretty simple. Every year, every contract is up for renewal, and there's no ability to have any sort of auto renewal in the structure of how China does business for everyone, not unique to Otis. So, it is every year continuous, you have to prove yourself, you get repriced. It's just it's a very different structural system.

Operator: Your next question comes from the line of Steve Tusa with JPMorgan. Please go ahead.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. I'm not sure if we have the numbers right on the conversion rate in China. It seemed like it was substantially lower than what you guys have been reporting in the past. Just the math on that, if you could confirm that.

And then I guess just combining that with the attrition and delving a little bit deeper into Jeff's line of questioning, is there just something now like structurally different with this China aftermarket that the price pressure has kind of intensified from the OE into the services now, and so that's just something you're – like you said, you're kind of walking from, from a value perspective? Is that – just higher level, like, is that the mosaic there?

Judith F. Marks

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

A

Yeah. Let me answer both. So the China, there's two things going on here, Steve. One is we are – and we're kind of in flight. So, we've got orders in the backlog that we won competitively, that we won through our agents and distributors, and some of these are not in the Tier 1 and Tier 2 cities where we choose to focus because of the contribution. We get better density there, the contribution makes sense, so we've obviously delivered them. New Equipment margins are good. But we're – we understand if that customer chooses to go with another service provider, and we allow that to happen.

Separately, on recaptures, we use that same filter. So it's not – we don't want to recapture everything across the whole country. We want to recapture the units. So in New Equipment, we want the units that will give us the lifetime service or certainly a better service stickiness. In Service recaptures, we're very targeted now. So, I think you're seeing not structural but strategic Otis decisions that will – it might impact the rate, but it will give us a healthier portfolio in China.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. And again, are we right about the conversion rate being like significantly lower?

Judith F. Marks

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

A

It is lower. It is lower.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay, okay. And then that should remain kind of in that level going forward?

Judith F. Marks

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

A

Yeah. I would expect a little improvement, but it'll remain lower, yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. And then sorry, one last one just on price cost. What is the kind of thought on that this year? I know steel, obviously, has been a bit volatile. What are you guys looking for kind of on a spread basis this year?

Cristina Méndez

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

A

We expect the same trend as we have seen in 2025, Steve. So rest of the world is good. In China, we'll have positive low-single digit price. China will remain challenged, around 1, 2 points down sequentially quarter-over-quarter.

Judith F. Marks

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

A

Yeah. I'm not as worried about commodity, Steve, with how we manage it locally and then how we lock it in. Obviously, we're watching steel, copper, but it's not a significant number for us in terms of a headwind this year.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks a lot.

Judith F. Marks

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

A

All right.

Operator: And that concludes our question-and-answer session. I will now turn it back over to Judy for closing comments.

Judith F. Marks

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

Thank you, Krista. 2025 marked another year demonstrating the strength and resiliency of our service-driven strategy. This foundation in Service, together with a robust backlog for modernization and New Equipment, gives us confidence in driving meaningful growth in 2026 and beyond. Thank you again for joining us today. Please stay safe and well.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.

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