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Otis Worldwide Corp. (OTIS)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' First Quarter 2026 Earnings Conference Call. This call is being carried live over 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, Krista. Welcome to Otis' first quarter 2026 earnings conference call. On the call with me today are Judy Marks, Chair, CEO and President; and Cristina Méndez, Executive Vice President and CFO.

Please note, except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring and significant non-recurring items. A reconciliation of these measures can be found in the appendix of the webcast.

We also remind listeners that the presentation contains forward-looking statements, which are subject to risks and uncertainties. Otis' SEC filings, including our Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

Now, I'd like to turn 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 everyone listening is safe and well.

Starting on slide 3, Otis delivered a solid start to the year-end orders and sales with continued demand momentum that provides visibility for future growth, especially in our Service segment. Total organic sales increased 1% in the quarter driven by organic Service growth of 5%, with broad-based strength across all Service lines of business. Maintenance and repair sales increased 4%, driven by an acceleration of organic repair sales, which increased approximately 10%.

In modernization, we continue to see strong demand with orders up 11% in the quarter and the backlog up 30% at constant currency. This backlog provides improved visibility into the future and supports our view of modernization as a durable, multiyear opportunity as the global install base continues to age.

In New Equipment, market conditions remain mixed, but we see encouraging signs of stabilization. Orders increased 1% at constant currency and 5% excluding China. Backlog increased 3% year-over-year at constant currency and was up 11% excluding China, giving us good momentum for the remainder of 2026 and beyond. While China continues to weigh on results, demand across the rest of the world remains positive, especially in the Americas where orders grew more than 20% in the quarter for the seventh straight quarter of orders growth.

Otis delivered another quarter of strong cash flow performance with adjusted free cash flow of approximately \$272 million, up 46% versus the prior year. This reflects a ramp up in orders, improved working capital management, and continued focus on cash conversion.

Yesterday, we announced a 5% increase to our quarterly dividend. Since spin, our dividend has increased by approximately 120% consistent with our disciplined approach to capital allocation and our commitment to returning cash to shareholders. During the quarter, we opportunistically completed approximately \$400 million of share repurchases, reflecting our ongoing approach to capital deployment while maintaining flexibility to invest in the business and support long-term value creation.

We recently announced a majority investment in WeMaintain, a digital and AI-enabled elevator service provider. We anticipate this transaction to contribute incremental growth as WeMaintain offers a compelling connected solution with a complement to Otis ONE for a multi-branded portfolio base. We're excited to welcome and support the WeMaintain team and integrated ecosystem and look forward to the long-term value creation opportunity.

We're continuing to build our services capability to drive growth and margin. We will continue to invest in field and sales resources to support the Service business.

Lastly, we recently announced two new innovation offerings. The first is Otis ROBUST, a range of heavy-duty elevators designed for data centers and other mission-critical environments. I'll share more in a moment. Secondly, we also introduced Otis Viva Solutions, which support safer and more accessible mobility for aging populations. Otis Viva Solutions focus on improving everyday usability and accessibility in elevators across both existing buildings via modernization and new installations.

Turning to our orders performance on slide 4. Combined New Equipment and modernization orders increased 4% in the quarter reflecting continued strength in the modernization business and New Equipment orders returning to growth. The combined New Equipment and modernization backlog increased 9% year-over-year, and our total backlog remains at historically high levels, approaching \$20 billion, setting a solid foundation for future earnings visibility.

New equipment orders increased 1% at constant currency in the quarter. We saw strong performance in North America with orders up more than 20%, and low-single-digit growth in EMEA driven by the UK, Central Europe and Western Europe. These gains were largely offset by a greater than 20% decline in Asia Pacific due to a tough prior year comparison, as well as continued softness in China where orders were down low teens.

Modernization continued to perform well with orders up 11% at constant currency driven by North America and China, each up greater than 20%. This was partially offset by EMEA down high-single digits and Asia Pacific down mid-teens, as both regions face difficult comparisons for major projects in the prior year.

Before moving to financial results, I'd like to mention several highlights from the first quarter. In France, Otis has been selected by Marseille Metropolitan Transport Authority to fully replace and maintain 51 escalators across 10 metro stations. The scope includes the installation of 35 escalators designed for standard heavy duty metro use, and 16 additional escalators engineered for the most demanding environments, featuring greater vertical rise and very high passenger volumes across one of France's busiest metro networks.

In the Americas, Otis has been selected to supply 46 units to the Austin Convention Center redevelopment in Texas, including SkyRise and Gen3 elevators, as well as public escalators. We view the expansion of the Austin Convention Center as part of a broader modernization opportunity across the US Convention Center segment where many facilities built 20 years to 30 years ago are now being upgraded to meet today's capacity, accessibility, and performance requirements.

In China, Otis will upgrade 46 elevators at the Runyuan Community in Harbin City as part of a bond-funded residential renewal project, replacing all units with Gen3 Comfort elevators. This represents the first nationwide implementation of the Gen3 Comfort model since we launched it at the eighth China International Import Expo, aligning with the country's good housing standards.

Built for residential modernization and elderly friendly living, Gen3 Comfort elevators feature full height mirrors to enhance spatial awareness, bright LED lighting to improve visibility and comfort, increased cab height for a more spacious and comfortable ride, and smart recognition cameras to detect and prevent safety hazards. The elevators are also equipped with a energy regeneration system and Otis ONE IoT platform, delivering a safer, more comfortable, energy efficient and connected travel experience for residents.

And lastly, as I previously mentioned, we recently launched our Otis ROBUST range of elevators to serve data centers and other mission-critical environments including hospitals and industrial buildings. Otis ROBUST is built for high capacity, high traffic applications that require durable, reliable, around the clock operation, reflecting growing demand across infrastructure driven markets. Engineered for heavy duty performance and accelerated project timelines, our ROBUST solution demonstrates our commitment to product innovations that serve our customers' unique needs including movement of high value freight and passengers.

Turning to our first quarter results on slide 5. Otis delivered net sales of \$3.6 billion with organic sales up 1%. Adjusted operating profit, excluding a \$28 million foreign exchange tailwind, decreased by \$38 million in the

quarter. Adjusted operating profit margin declined 130 basis points to 15.4%. Adjusted EPS declined 3%, or \$0.03, in the quarter driven by operational performance, partially offset by favorable foreign exchange rates.

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. Maintenance and repair organic sales increased 4% with organic maintenance sales of 2% driven by 3% portfolio growth and approximately 3% positive pricing, partially offset by mix and churn. Repair organic sales were in line with our expectations, up 10%, reflecting solid orders momentum and healthy customer demand across all regions.

Modernization organic sales grew 6% supported by a strong backlog conversion in the Americas, China and Asia Pacific, partially offset by a decline in EMEA. We experienced modernization project delays in EMEA due to the conflict in the Middle East during the quarter. However, we remain convinced of the underlying demand for modernization as evidenced through the progress we continue to make on orders.

As Judy mentioned earlier, our modernization backlog is up approximately 30% at constant currency, which gives us confidence in our outlook for the remainder of the year.

Service operating profit was \$556 million in the quarter, down \$10 million at constant currency. Higher volume and favorable pricing provided a benefit, but these were more than offset by continued investments to support long-term growth, higher labor and material costs, and unfavorable mix, particularly in our maintenance business. As a result, Service operating margin contracted 160 basis points to 23% reflecting investments in service capacity and quality as well as ongoing cost inflation.

Faster growth in lower value maintenance units has driven negative mix in our portfolio growth in recent quarters. As we are focusing on shifting this dynamic to capture higher value units, we are investing significant resources in service excellence. We are also continuing to hire to support our long term-growth ambitions.

In a moment, Judy will provide some additional insights on these dynamics and the actions we are continuing to take to address these headwinds.

Turning to New Equipment on slide 7. New Equipment organic sales declined 5% in the quarter. Growth in EMEA was more than offset by declines in Asia, particularly China, and slightly lower volumes in the Americas. EMEA sales increased approximately 1% driven by growth in Southern Europe, partially offset by weaker performance in Western and Central Europe. Asia declined 13% reflecting China's lower backlog, with sales down more than 20% alongside lower sales in Asia Pacific, with a strong growth in India more than offset by softness in other parts of the region.

New Equipment sales in the Americas declined approximately 1%, a sequential improvement from last quarter as we begin to execute on the strong order growth that began in the second half of 2024. Looking ahead, we expect the Americas to return to positive New Equipment sales growth for the full year in 2026.

New Equipment operating profit of \$38 million declined \$27 million at constant currency with operating margin declining 240 basis points to 3.3% in line with our expectations. The decline in profitability was primarily driven by lower volumes, unfavorable price and mix partially offset by productivity. Looking ahead, we remain focused on

disciplined execution, productivity and cost management as we navigate the current New Equipment market environment.

I will now hand it over to Judy to discuss our Service margins and the actions we have taken to return them to past levels. Judy, back to you.

Judith F. Marks

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

Thank you, Cristina. Turning to slide 8. We realized we have seen some volatility in our Service results in recent quarters, which is unusual given the nature of our stable and predictable Service flywheel. 2025 was a year of uplift implementation in our frontline operations, which caused some disruption in repair and modernization execution in the first half. At the same time, we redefined our Service strategy with the goal to maximize lifetime value by investing in service excellence and driving growth in our highest value markets.

We're pleased with the progress we've made in strong repair and modernization orders in the first quarter, and we're also encouraged to see our retention rates, excluding China, stabilizing. However, we experience short-term profit pressure in the first quarter in our Service business driven by three factors we're working to address.

The first factor is our investments for growth. Since the second quarter of last year, we've been adding field colleagues to drive our service excellence initiatives, as well as adding sales resources to support our growth. Overall, in Q1, we have \$5 million of additional field costs in the base line devoted to service quality.

In addition, in Q1, we invested approximately \$10 million in sales capabilities in high value markets, including tools and our AI pricing algorithm, sales representatives, and training of the sales force. For the full year, we expect \$50 million of incremental investments in 2026, inclusive of what we've executed in the first quarter.

The second item is portfolio mix. While we've grown our maintenance portfolio 4% for four consecutive years through 2025, in the first quarter, our portfolio grew 3%. Importantly, more of the recent growth has come from lower value markets. This negative mix has been a drag, causing maintenance organic revenue growth to decelerate to approximately 2%. While we recognize this headwind last year, we anticipated a faster recovery in higher value markets.

Third, we have seen revenue delays and timing of cost recovery driven by inflationary effects in our base, partly related to the Middle East conflict. As we look ahead, we're taking decisive actions to address the headwinds to Service margin and drive sequential improvement in the coming quarters.

As I mentioned, the portfolio mix headwinds have been higher than anticipated, and we've decided to scale up investments encouraged by the positive results from the pilots in place. We're confident that the improvement in retention rate will pay off, and we will return to margin expansion by the end of the year. Additionally, we're investing in micro pricing capabilities, and as we roll out the pricing initiatives that started last year across multiple high value markets, we anticipate accelerating maintenance organic sales growth back to 3% in 2026.

In addition, we remain extremely bullish on the outlook for both modernization and repair demand due to the aging of the global install base. Going forward, we expect repair organic sales to grow approximately 10%, while modernization orders are expected to grow in the low teens or above on a sustained basis. Within repair, we're replicating the industrialized and proactive approach that has delivered such strong results in modernization. By leveraging insights from Otis ONE connectivity, together with our unique capabilities from factory to the front line,

we are proactively driving repair volumes and reducing customer downtime. First quarter repair results were very solid. We expect this trend to continue throughout the year.

Regarding cost management, to address cost headwinds experienced in the first quarter, we are implementing fuel and logistics surcharges. Though there is a time lag versus cost incurred as we implement these pricing actions, we expect to fully offset these higher costs as we pass them on via pricing throughout the year.

Finally, we're executing a targeted cost reduction program in non-front line related activities. After finalizing uplift in 2025, we're refining our global functions to be business-centric and removing discretionary spending that's not business critical. We expect this to result in up to \$20 million of run rate savings and indirect expenses. Please note of the \$20 million targeted run rate, we expect to achieve approximately \$10 million in 2026.

Overall, while recognizing a setback in our Service profit in the first quarter, we are addressing the root causes, while sustaining our investments to return to our post-spin margin levels. With the actions in place, we expect Service margin to sequentially improve in the coming quarters and return to year-over-year margin expansion towards the end of the year as we capture the benefits from retention, pricing, execution of our growing orders, and repair and modernization, and optimization of our costs.

Moving to slide 9 with the market outlook, our 2026 market expectations have not changed. We continue to expect the global new equipment market to move towards stabilization in 2026 with industry units down 2% for the year. This expectation includes growth across all regions except China.

In Americas first quarter, demand in North America was robust, and we continue to anticipate solid growth for the full year driven by strength in residential, healthcare and data centers. Latin America market volume is expected to stabilize supported by public investment in Brazil.

Growth in EMEA is expected to accelerate this year driven by broad-based strength in Europe and continued expansion as the Middle East continues to build its future economically despite the current conflict. At this time, we have not adjusted our beginning of year forecast for the Middle East. However, should the conflict continue for a prolonged period, there is a risk that New Equipment demand could be negatively impacted.

In Asia Pacific, we're anticipating last year's expansion trend to continue driven by robust demand in India and Southeast Asia, while Korea is expected to stabilize this year after a challenging past several years. Lastly, in China, we believe the worst of the market decline is behind us. While units are expected to decline in 2026, demand is continuing to trend toward stabilization. Taken together, we expect Asia to decline in 2026.

The global outlook for modernization remains robust with the market continuing to grow double digits on a dollar basis with growth across all regions. This is due to past construction cycles and the demographics of the aging install base. We continue to believe we're in the early innings of a multiyear growth cycle for modernization that we're just beginning to capture in both phased and full modernizations.

Turning to our financial outlook, we now expect net sales of \$15.1 billion to \$15.3 billion with organic sales growth up low to mid-single digits. While we've experienced limited project execution delays due to the conflict in the Middle East, we believe these delays are recoverable through the remainder of the year. We now expect adjusted operating profit to be approximately \$2.5 billion, up \$20 million to \$60 million at constant currency, and up \$60 million to \$100 million at actual currency.

Given the new profit outlook, adjusted EPS is now expected to be \$4.20 to \$4.24, still in the original range of our guide, representing a mid-single-digit increase compared to 2025. Adjusted free cash flow is anticipated to be between \$1.6 billion to \$1.65 billion. We opportunistically completed \$400 million of share repurchases in the first quarter, and we continue to target \$800 million for the full year front loaded in the first half of the 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 organic sales outlook on slide 10. We continue to expect low to mid-single-digit organic sales growth driven by accelerating growth in Service and moderating declines in New Equipment. Our outlook for Service organic sales remains unchanged. We are anticipating mid to high-single-digit organic sales growth within Service, representing 1 point to 2 points of acceleration compared to 2025. Repair should benefit from robust orders demand, as well as flow through from our pricing initiatives. And within modernization, our strong backlog should enable us to deliver another year with solid organic sales growth.

Our expectations for New Equipment organic sales growth is also unchanged. We continue to expect to be down low-single-digits to flat, with growth across all regions except China. In the Americas, we should continue to see improvement through the year, as a strong orders growth that began in the second half of 2024 flows through revenue. We expect total net sales of \$15.1 billion to \$15.3 billion for the full year.

Turning to our financial outlook on slide 11. We now expect adjusted operating profit to grow \$20 million to \$60 million on a constant currency basis. This represents similar operating profit growth compared to 2025 despite \$50 million of incremental investments, as well as the cost and mix headwinds we are currently experiencing.

Regarding the conflict in the Middle East, we expect neutral impact for the full year profit, as we anticipate we will be able to pass on higher costs for fuel, commodities, electronic components, and logistics. Our guidance also assumes a modest year-over-year benefit from tariffs based on the current tariff regulation in place without assuming any tariff refunds in year.

Lastly, adjusted free cash flow is expected to be between \$1.6 billion to \$1.65 billion.

Moving to the 2026 EPS bridge on slide 12. We are reducing the high end and narrowing the range of our previous adjusted EPS guidance to \$4.20 to \$4.24, primarily reflecting our softer than anticipated first half due to operational headwinds and investments in Service described earlier. Note that our current guidance assumes the Middle East conflict ends in the second quarter. However, should it continue, we expect it to have a negative impact to profit of \$5 million to \$10 million per quarter due to project delays, logistic interruptions and increased cost.

Providing now some color on the second quarter. Our expectations are aligned with what we said on our webcast on March 18. Total organic sales are expected to accelerate, mainly driven by repair and modernization that will grow sequentially on the back of the strong orders momentum. The decline in New Equipment organic sales is expected to moderate sequentially. Total adjusted operating profit dollars on a constant currency basis are expected to decline in the second quarter at a similar level as the first quarter resulting in adjusted EPS decline of minus 3% to minus 5% compared to the prior year.

Looking at full year, we believe that the results will accelerate in the second half as we execute the operational actions Judy described. We expect Service profit to sequentially expand driven by the impact from pricing, repair

and modernization execution, retention improvement and cost takeout. Together with recovering New Equipment volumes, we expect to drive profit growth in the second half. The investments we are making today are creating a strong foundation for the second half of the year and beyond. We are well-positioned to capture the significant service opportunities ahead with our industry leading margins that we believe can resume expanding in the future.

With that, I will kindly ask Krista to 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] We also ask that you limit yourself to one question and one follow-up. For any additional questions, please re-queue. And your first question comes from 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 we just focus on the cadence of Service margin expansion? Not sure if kind of thinking about this correctly, but is it something that goes from like 23% in the first quarter to maybe 24.5% in the second quarter and then the back half of the year, you're looking at year-over-year margin expansion? And if that's reasonable, just any color on kind of those building blocks from 1Q to 2Q because it would be a decent margin step up.

Cristina Méndez

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

A

Hi, Joe. This is Cristina, and thank you for your question. So, let me guide you through the sequential evolution of the Service margins throughout 2026. So, we started Q1 with 160 basis points decline, 23% [ph] for us (00:40:29). And we are expecting this to sequentially improve along the coming quarters. You rightly said Q2 will be probably [ph] negativity-wide (00:40:37) but margin will be around 24% to stabilize in Q3 and to come back to margin expansion in Q4. That means at full year, we should be in the high 24%, which is a touch below 2025.

The reason for this calendarization is because of all of the actions we are implementing in the first half of the year in terms of pricing, we also are facing these temporary headwinds for the Middle East that will be full year neutral because we are pricing the inflation in our contracts, but it takes time to recover the price versus inflation that comes up front.

We are also very positive about the strong momentum in Service sales expansion. We have a very strong backlog in modernization and repair, and we expect execution to ramp up as early as in Q2. So, with all of this in mind, together with the payback of the investments we are already placing also on the portfolio mix, we expect maintenance is growing 3% at the end of the year as Judy have said. We are very confident that Service margins are going to be back to normal by the end of the year.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Thank you, that's helpful. And then on the maintenance growth trajectory, so something like 2% in Q1. Just to be clear, is it 3% for the full year or you would be exiting the year at that pace? And then what you see in terms of that path from Q1 to better growth as you go through the year, the degree to which that's price related or kind of strategy around what you're doing on retention and capture?

Judith F. Marks

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

A

Yeah. Thanks, Joe. It's Judy. So, yeah, it's 3% full year and the exit rate. So, let me just take care of that one head on. Listen, we have been very focused. While we were disappointed in the first quarter that we didn't see the acceleration from this strategy shift we made last year to higher value parts of our portfolio, that is where the focus is. That's why we're making the investments in our people, making sure we have service excellence.

So, we're adding maintainers where in the past few quarters and now we haven't built them, again, to drive that service excellence. So, the key metric I look at for that is retention. And I am pleased to share without sharing numbers, which we only do once a year, our retention rate at the end of the first quarter was at the same place it was for full year 2025, so it has stabilized. But if you look first quarter 2026 to first quarter 2025, we're up about 50 basis points in retention, which is why we have this confidence that the investment is paying off. Again, at that, we ended last year with a 94.5% ex-China retention rate.

So, as we continue to add units in the higher value countries, it obviously drives a higher value of margin contribution and profit dollar contribution. And that's what we'll be seeing as we go.

Secondly, we are very focused on what we've been doing with micro pricing. We're encouraged by what we saw with the pilots in the fourth quarter of last year. We're rolling that out in our higher value countries as we speak, and that is in both maintenance and repair. So, our maintenance contracts, as we renew them, separate from the pricing action we're taking to handle the inflationary impacts of the Middle East with fuel and everything else, they're sticking. And so, that will start rolling through, and you'll see that coming through the revenue.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Thank you.

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

Rob Wertheimer

Analyst, Melius Research LLC

Q

Thanks. And Judy, just a follow-up on what you just touched on. Retention getting better, but you were sort of disappointed in the high value markets in 1Q. So, maybe square that circle. Just what didn't come through as you expected in 1Q on that Service portfolio?

Judith F. Marks

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

A

I'd say the biggest challenge we had geographically was in our Europe base, full transparency. That's where we didn't see significant gain there in terms of portfolio gain, and that is half our portfolio. So, the good news is under Thibault's leadership, that team is laser focused on ensuring portfolio gain in countries where our revenue per unit is significant, as well as our contribution per unit. He has his team together. I spoke to them earlier this week as well, directly to his top leaders. This is their top metric and they understand that. And over 55% of our portfolio is in EMEA, so that's why this is just so important to us.

Rob Wertheimer

Analyst, Melius Research LLC

Q

And do you think the war and disruption had any impact on that particular metric or is decision making or anything else, or is that more just what you're working on structurally?

Judith F. Marks

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

A

I would not put this one on the war in terms of portfolio retention. This is about us executing the commitments we've made with service excellence. Again, we're starting to see the improvements, Rob. I really – I can tell you that based on the deep dives and retention that we're seeing at every one of our operating territories, and I believe you'll see that come through as the year goes on.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Perfect. Thank you.

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

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey, thank you. Good morning, everyone. Judy, maybe pivot to WeMaintain. That sort of rhymes a little bit with kind of the nagging concern many of us have about ISPs being technically, capable of competing effectively against the big OEMs. Maybe just sort of address that, and what you see them bringing to the table specifically for Otis?

Judith F. Marks

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

A

Yeah. No, thanks. And good morning, Jeff. Great question. So, we're really excited to have Ben and Jade and the WeMaintain team join us here at Otis. And we will be operating them independently. What sets WeMaintain off from a lot of the ISPs across the globe is they're not just a service provider. This is a digitally native ecosystem that was started in late 2017 that operates in at least four other countries right now, that integrates a digitally native mechanic with an ecosystem that uses machine learning and AI to really drive more customer centricity and to learn with every repair they make, every maintenance visit they make.

What I like about it is it complements what we do on Otis ONE, which has significant depth for Otis units and in a 23 million unit install base, gives us even more access to non-Otis units, of which, a little under 20 million units out there are non-Otis units. So, we're excited. We're excited to be the majority investor. Again, we're going to operate as separate entities because we think that gives us more access to the market. But there's a really strong alignment with the technology platform that we maintain. And we believe in the growth potential that's going to, we believe, drive long-term value for customers and the culture.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Is there something that they have done or are doing, though, that would suggest it's not, I guess, "easy" or likely that's someone else replicates this using AI tools?

Judith F. Marks

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

A

Well, they've been doing it for almost nine years now, eight or nine years, which is different than just putting a piece of agentic AI out for repair technicians and maintenance technicians. It's truly integrated in terms of the knowledge learning and the immediate sharing across their entire mechanic base. So, this was born this way. If you join, we maintain as a mechanic. These are the tools you use and you use them 24/7. And when we look at incredible retention rates that they have and their ability to continue to grow, we think this is very unique.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. And just a quick follow-up on margins. You had that 60 bps gain in the Q4 Service margin. You're on a as-reported basis, you're comfortable with Q4 2026 exceeding Q4 2025 even with that gain?

Cristina Méndez

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

A

Yeah. We are, Jeff, and let me remind you that Q4 2025 was also driven by sale of assets. We had a \$50 million benefit from that from a few transactions. But yeah, we are confident based on what I have described before because we see the backlog is there, we have the resources to execute, we are very positive about the first impact we see from the pricing initiatives we started last year, and this is going to compound over the year. We will put on top the additional price through that will cover the inflation we have seen in Q1, and we will see in Q2 coming from the Middle East. And in addition to that, maintenances will recover in the second half of the year. So, with all of these components, we are positive about the Service margin expansion in Q4.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Okay. Thank you.

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

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. I just wanted to follow up on that, Cristina. Maybe if you just give us a little bit more help on that bridge from 23% in 1Q. I think you're pointing to 26%-plus in 4Q. So, just wondering if you could maybe decompose that between pricing, supercharging, some of the cost reductions. That'd be helpful.

Cristina Méndez

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

A

Yeah. So, no, thank you, Nigel. So, starting with Q1, in Q1, originally, we were assuming 30 basis points margin contraction initially in our guide. That was essentially the result of the investments we initiated last year, sometime in Q2, Q3. And the reason for those investments is that we wanted to accelerate growth in high value markets and was primarily via retention. And as you know, stickiness in our business is very high. If we do the right things, if customers are satisfied, there is no reason for them to leave. So, those investments in the first pilot are rendering good results.

Having said that, as we started the year, we realized that the headwinds we see in the portfolio mix were higher than expected, and that's why we decided we are going to invest more because we are happy about the results. Judy mentioned the retention rate has stabilized, so we are going to scale up those investments.

So, the reason for the incremental margin deterioration in Q1, we have seen 160 basis points versus 30 basis points originally expected, is essentially 50 basis points coming from these mix headwinds, another 50 basis points coming from the incremental investments we placed in Q1, and approximately 30 basis points coming from a variety of topics, primarily the Middle East headwinds. We had shipment delays in modernization and additionally, the cost inflation that we start seeing in our base.

Now, when you go through the year, you will see that Services will accelerate. We are expecting approximately 7% organic Services in the second half of the year. This is thanks to repair and modernization ramping up. Repair will be around 10% growth per quarter and look, we see the orders. Repair orders in Q1 were above 10%. So, this is coming. In addition, modernization will be above 10%. Modernization backlog is growing 30%.

And then in addition, we see the pricing effects. Pricing, we said at the beginning of the year, we expect \$50 million [indiscernible] (00:53:06) incremental to what we have done before. Plus, in addition to that, we are going to price the inflation we see from fuel and logistics. This comes on top.

And last but not least, this is not related to Service, but Judy also mentioned, because this will contribute to operating profit improvement in the second half, cost takeout. We are conducting a very selective approach in order to remove all kinds of costs that are not related to the front line. Let me also highlight that. We are going to protect front line sales and field execution. This is going to come from non-front line activities.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay, Cristina, that's really helpful. Thanks for that. And then just on the pricing, it sounds like you're quite bullish on some of the pricing you're putting through. I'm just curious, is there a risk with higher price and some surcharges that could derail the attrition improvement strategy to some degree?

Judith F. Marks

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

A

Yeah, Nigel. Listen, the reason we are doing micro pricing is to not have just across the board and across the board push, which obviously, with certain customers who might be right on that precipice, we don't want them to [indiscernible] (00:54:19). We want to keep them. So, we're looking at where we drive value. So, when you're looking at a repair as it's urgent and imminent, how much elasticity is there in that price. And we're looking at it real time in the markets it's part of, whether it's hospitality, hospitals. So, we're really micro segmenting the segments and micro segmenting what the value and the elasticity is. So, I'm not worried about that.

The fuel, I think you're going to see that across the board. You already have with so many logistics companies already doing that. I think you're going to see that everywhere. We've got 22,000 vehicles, as you can imagine. We're moving parts across the globe to be able to respond to our customers real time. And so, we've done this before when fuel went up, we were successful with it. And we anticipate a similar success. And I'm not worried about any compounding there that would cause attrition.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. Thanks, Judy.

Operator: Your next question comes from the line of Lewis Merrick with BNP Paribas. Please go ahead.

Lewis Merrick*Analyst, BNP Paribas SA (London Branch)*

Q

Yeah. Good morning and thank you for taking my questions. Just one from my side. Just coming back to the Service margin. You've pointed out the negative mix impacts you've been having from growth in Asia and China. It's understood that those are lower margin regions. I understand the negative mix impact you'd be getting from growing there. But the underlying margins, ex the investments you've made, in the EMEA and the Americas also coming under pressure, or is that not the case?

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

A

Yeah, they are not coming under pressure. We have not seen that at all. Again, we've been balancing retention, price and that ability to make sure that those margins drop through. We do that through cost controls, Lewis, and including not just the ones we talked about, where we're going to handle discretionary costs and other resources that are non-customer facing, non-field non-sales. But even in our field organization, our cost of sales and where and how we buy parts, all of that is being carefully managed and controlled now. So, that's, again, what gives us the confidence especially in the Americas and EMEA.

Lewis Merrick*Analyst, BNP Paribas SA (London Branch)*

Q

Okay. That's very clear. Thank you very much. I'll turn it over.

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

A

Thank you.

Operator: Your next question comes from the line of Alexander Virgo with Evercore ISI. Please go ahead.

Alexander Virgo*Analyst, Evercore ISI International Ltd.*

Q

Yeah. Thanks very much. Good afternoon, Judy and Cristina. Oh, good morning, I beg your pardon.

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

A

No worries.

Alexander Virgo*Analyst, Evercore ISI International Ltd.*

Q

Sorry, sitting in London. I wondered if you could talk a little bit about the repair business, if you could just sort of size it for us in the broader context, and then maybe give us a sense on the visibility and the sort of the lead times that are entailed in it? Because I'm guessing the dynamics are going to be somewhat different from the broader Service business. So, I'm just wondering how you can underpin that 10% for the rest of the year and then how we might think about that in the longer term. Thank you.

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

A

Sure. Let me start and then I'll hand it over to Cristina and let me just set the stage. The repair business is not discretionary as the modernization business tends to be. And with 9 million or 10 million units now over 20 years old, we are seeing the frequency of repair increasing. That we call reactive repair. That's something Otis has always done. It is, as I've shared many times on this call, our highest margin product or offering. It's higher margin than maintenance. It's higher margin than modernization and New Equipment.

As units age, they break down more. So, this reactive repair demand we're seeing is healthy and growing by itself. Now, we're layering on what we call proactive repair, which deals with obsolescence of parts, which deals with our ability, because we have 1.1 million – over 1 million units connected via Otis ONE, the ability to predictably understand when an elevator is going to shut down or have an issue. And we have the ability to get to a customer before that and repair it so that they don't have a shutdown, they don't have time lost.

So, when you add the reactive and the proactive, we believe that's somewhere in the teens. That growth rate, again, it compounds and grows as people defer modernization decisions, which is absolutely every customer's right, whether it's a phased or full modernization. Cristina, I'll let you take us through some numbers.

Cristina Méndez

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

A

Yeah. And, Alex, I can complement with the financial size of this segment, as you were asking, all this activity. Within the Service segment, this is probably the second biggest activity after maintenance in terms of revenue size. But let me also note that we don't separate maintenance from repair because depending on where you are in the world, the nature of the contract can be all included, in which case, repair is included in the maintenance revenue or can be basic, and then all activities in repair are charged on top. That's why we put them together because depends on the typology of contracts.

From a margin standpoint, [indiscernible] (00:59:45) is the highest margin activity. So, you can imagine that repair growing at an ongoing run rate of 10% is very accretive from a profit standpoint.

Alexander Virgo

Analyst, Evercore ISI International Ltd.

Q

That's very helpful. 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. Just wanted to circle back, apologies, on Service margins again. So, just trying to understand kind of what's – anything changing in the market versus sort of self-inflicted things. Judy, wondered if there was any shift there? I mean, our understanding is that maybe China Service pricing is very difficult, US service pricing maybe a little bit more pressure in the industry. Just wondered if you sort of disagreed with that.

And then secondly, the price sort of cost headwinds or price net of labor, material, fuel and so on in Service, is that a big lever sort of turning around as we move through the year or not really? I think, Cristina, you didn't mention that as a big headwind in first quarter, but it sort of come up through the call. So, just wondered if that's something price net of material and other costs in Service. Does that also help the margins year-on-year through the rest of the year?

Judith F. Marks

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

A

Well, let me take the first question, Julian, and really, thanks for asking. You're the first person who has asked me about China so far this morning. So, I almost had a clock on that. But listen, our Service business in China, just like everywhere else, consists of maintenance, repair and modernization. And this is the first quarter in China where, since Ben and I would argue, you can go back a lot more years where our Service revenue has outpaced our New Equipment revenue. So, it's now 52% of our revenue for the quarter, while China is down to 9% of the total revenue for Otis.

So, our Service business has continued there in terms of being able to add more units to our portfolio, albeit at a lower revenue value and a lower margin than in the more higher value markets.

The mod market in China, though, is what's really added some nice contribution in the first quarter. We've been talking to you now, this is now year three we've entered with the bond stimulus. It started earlier this year and there's approximately 180,000 units this year for bond in mod in China versus 120,000 last year. And our mod first quarter orders were up well over 50% in China. The revenue was up close to that, and their mod backlog is up over – well in the double digits.

In the Americas, we're not seeing a different maintenance structure. Yes, there are a lot of ISPs who have been amalgamated and brought together by other private equity, but they're the same ISPs we competed with before. They're just some different brands, some different names. So, we're not seeing that pressure drive, really, anything on the price side in the Americas. There's always unique customers, some key accounts across the globe where we make special considerations as you can imagine because of the long-term relationship we have with them.

Cristina Méndez

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

A

Julian, I can complement to what Judy had said on pricing. So, first, we don't see additional challenges in the marketplaces from a competitive standpoint. But secondly, price for us is a tremendous tailwind this year. And there are two different initiatives. One is the micro pricing that we started last year in Q4. And this is essentially thanks to our AI algorithm, thanks to a much more granular approach to pricing, we are able to adapt our price to customer perception, to customer SLAs, so we don't follow the same approach for all. And this is the \$50 million improvement sequentially that I mentioned before, one year versus the other, because this comes on top of the regular inflationary clauses we have in our contracts.

The second set of initiatives relate to the particular situation of the geopolitical Middle East conflict. And you mentioned Q1, it's true that the Q1 effect from inflation was not big. It was part of the 30 basis point margin deterioration I mentioned before, together with the volumes retail delay. But then in Q2, it will get a little bit bigger. This is part of what we guided of EPS being 3% to 5% down in the second quarter. It includes the inflationary effects, but for the full year, we are going to be able to recover because we are currently already pricing that, it's just the time lag from when we start the initiatives until we see the flow through.

So, in the second half of the year, in a nutshell, pricing is going to be a tremendous tailwind, both from micro pricing and from the Middle East inflation pass-through.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's very helpful. And just one follow-up question. Not so much on this year, but a broader one maybe for Judy around the Service business. And you had that strategy sort of pivot over the last 12 months. So, for Service, generally, as we're thinking about the medium term, is the expectation now, it's maybe kind of 2% or 3% maintenance portfolio growth. And then you're trying to kind of squeeze out more just a sort of higher ARPU from adding technicians and all the rest of it. How long do you think it takes for us to see that higher ARPU kind of flowing through on that lower maintenance volume growth?

Judith F. Marks

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

A

Well, it's lower maintenance unit volumes growth. And that's why we're talking about value versus volume. And you will start seeing that next year beyond what we've already now guided and outlooked for the rest of 2026. That's where it comes through at the revenue per unit. We don't report on revenue per unit, but you will see it in our maintenance revenues. And we were up 5% organically this year – this quarter. As Cristina said, you're going to see that continue to ramp. And that's due to the backlog we have. I mean we have line of sight on repair and modernization to be able to convert that this year, and that's what's part of our EPS guide for the second half.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Judith F. Marks

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

A

Thanks, Julian.

Operator: Your next question comes from the line of Nicole DeBlase with Deutsche Bank. Please go ahead.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks. Good morning. If we could start with the Service business, I also have a bit of a medium-term question. With the goals of improving attrition over time, which we understand will – nice that attrition is bottoming but it will take time for it to move in the other direction. How should we think about the need for Service investments beyond 2026? And, I guess, your confidence in being able to return to year-on-year margin expansion within Service in 2027?

Judith F. Marks

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

A

Yeah. No, thanks, Nicole. That's an absolutely fair question to ask. I would say that, certainly, retention has stabilized ex-China. Again, different structural system in China for every year, competition every year, renewals, no auto renewals. So, we are – the investment we've made, we see as very, very important. The most important part to that is it does drive the retention, and simultaneously, it gives us more skilled mechanics.

So, when I look at medium term, when I look beyond this year, it's not just about the retention rate in the maintenance portfolio, because once we get that, we also get the additional repair that comes with that work and eventually, the relationship for modernization downstream. So, it really does have a knock-on effect, again, of driving all parts of our business, because some of the maintenance portfolio we get through recapturing units. So,

they're not all just coming off warranty from New Equipment, they're also entering our portfolio from recapture. So, they enter at all different service lives.

And so, we understand where they are in those service lives, what it takes to maintain them and what it takes to retain them in our portfolio. So, I think the investment, certainly, we're not going to guide for medium term on that, but I think the investment slows down or more importantly, those people convert to billable. So, this actually could be a double benefit where they're now trained, they're now working, they have customer relationships, they can work on maintenance, they can work on repair, they can work on mod. We have a better skilled workforce. And now, we can do better resource allocation and make them billable. So, we're actually kind of turning and reversing an investment into a revenue and profit generating opportunity.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you, Judy. That's very helpful. And then I just wanted to circle back on what you're seeing in the Middle East. It sounds like you're not assuming that the conflict continues. But what's happening on the ground right now, with the cease fire, are there still project delays? Have you seen kind of a return to business as usual, which means if the current status prevails, there shouldn't be a real impact in the second quarter. Thank you.

Judith F. Marks

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

A

Yeah. So, we have colleagues and first of all, I'm thrilled. And we watch it every day. They're all safe. We have colleagues everywhere in the Middle East, as you can imagine, UAE, Qatar, Kuwait, Bahrain, Saudi Arabia. And they are performing. Our Middle East revenue is low-single-digit of Otis' revenue. So, that's not as much the impact in the region. Obviously, we're back on construction sites where our customers want us on the New Equipment side. And the Middle East is more of a New Equipment business as you can imagine, than a Service business, just because of all the building that's going on and the investments that all of the governments are making and the commercial entities are making.

So, we see it as a delay in projects. It's recoverable. Our folks are at construction sites. They're modernizing buildings, and we never stopped our essential services, just like during COVID.

So, we feel comfortable that we won't have a lot of impact. As Cristina said, though, if some of those New Equipment projects or, potentially, demand disruption happens, that's what we'd said, to think about that third quarter and fourth quarter, each of maybe \$5 million to \$10 million of EBIT impact. We don't expect that to happen, but we wanted to be clear as to what we saw.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. I'll pass it on.

Judith F. Marks

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

A

Thanks.

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

Patrick M. Baumann*Analyst, JPMorgan Securities LLC*

Oh, hi. Thanks. Thanks for fitting me in here. A lot of questions on Service. So, I'm going to go back to New Equipment. Just wanted to get some more clarity on the margin you expect there in the second quarter. And then for the year, what was the tariff benefit to the guidance versus prior expectations? And then below the line, the corporate expenses for second quarter in the year, if you can give some more color on that.

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

Hi, Patrick. Thanks for the questions. So, on the New Equipment side, we are at 3% margin-ish in Q1 and we expect the situation to continue at this level. For the balance of the year, we will land at 3%. The reason for that is as we see the recovery from volumes, which is going to be a tailwind, we have the mix and the price in the backlog, primarily from the price reduction we saw in China in 2025. Commodities are a small headwind. In the broader scheme of things, very small. We are talking about \$10 million negative and last year, they were \$10 million positive.

On the other side, you got it right. Tariffs are a tailwind for us. The new situation regarding AIPA Section 122 and the new Tariffs Section 232 are favorable by \$10 million versus our original guide expectation that was to be flat versus prior year. So, it's going to be better versus prior year. And in addition, we are getting some productivity on the field. So, with all of these, we expect New Equipment margins to stabilize. And as we start 2027 in positive New Equipment sales, margins should go up in the future.

On your second question regarding corporate, corporate is going to be around \$50 million per quarter going forward, and it's going to be full year, approximately \$15 million down or worse [indiscernible] (01:12:55).

Operator: Thank you. That's all the time we had for questions. Judy Marks, I'd like to turn it back to you for closing comments.

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

Thank you, Krista. In 2026, we are investing in capabilities to accelerate our top-line growth and our profitability. Together with fundamental tailwinds of the aging install base, Otis is well-positioned to deliver attractive, sustainable, long-term shareholder value through our Service business. Thank you for joining us today, everyone. Stay safe and well.

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

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