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Otis Worldwide Corp. (OTIS)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Otis' Second Quarter 2026 Earnings Conference Call. This call is being carried live on the Internet and recorded for replay. Presentation materials are available for download from Otis' website at www.otis.com.

I'll now turn it over to Imelda Suit, Senior Vice President, Treasurer and Interim Head of Investor Relations. Please go ahead.

Imelda Suit

Senior Vice President, Treasurer & Interim Investor Relations, Otis Worldwide Corp.

Thank you, Krista. Welcome to Otis' second quarter 2022 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 Forms 10-K and 10-Q, provide details and important factors that could cause actual results to differ materially. Now, I'd like to turn the call over to Judy.

Judith F. Marks

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

Thank you, Imelda. Good morning, afternoon and evening, everyone. Thank you for joining us. We hope everyone listening is safe and well.

Starting on slide 3. We achieved significant top line growth as we delivered a solid quarter with a significant step-up in organic sales growth driven by accelerating Service growth and improving trends in New Equipment, along with strong cash generation. Service remains the key growth engine of the business with 9% organic sales growth supported by 24% modernization growth, double-digit repair growth, and accelerating maintenance trends. Modernization orders were up 9% to end the quarter with a backlog up 26% at constant currency.

We strongly believe that the investments we're making in capacity, quality, pricing and commercial execution are enhancing our competitive position and yielding continued growth in our Service business. In New Equipment, we're encouraged by the sequential improvement in sales and the stabilization in margins. While orders were down 5% in the quarter, backlog increased 4% at constant currency, and the business is showing greater stability supported by a sales turnaround in the Americas at a robust 10% growth.

We delivered another quarter of strong cash generation with adjusted free cash flow of $290 million, up 19% year over year. The strength of our cash flow reflects the resilience of our business model. Importantly, this allows us to continue investing in growth and strategic investments, including the acquisition of a majority stake in WeMaintain, while also returning a significant portion of free cash flow to shareholders through share repurchases and dividends. In the first half of 2026, we bought back approximately $800 million of shares and raised our dividend 5%, returning over $1.1 billion to our shareholders.

These results reflect our progress in executing our strategy and investing and strengthening our Service business. Service margins declined year over year as labor and material cost increases have added pressure on margins as we ramp up our operations to execute on our strong repair and modernization backlog. With continued Service revenue growth, we expect a sustained recovery in margins in the next quarters.

With that, let me turn to our second quarter financial results on slide 4. Otis delivered net sales of $3.9 billion, with organic sales up 6%. Adjusted operating profit, excluding a $7 million foreign exchange tailwind, decreased by $32 million in the quarter as higher volume and price were offset by inflation, mix and productivity impacts. Adjusted operating profit margin declined 180 basis points to 15.2%. Adjusted EPS declined $0.04 in the quarter due to operational performance, partially offset by favorable foreign exchange rates.

I want to take a step back and look at the significant transformation journey we've been on, as shown on slide 5. From 2020 to 2025, we drove growth through a focus on boosting the size of our portfolio, introducing innovative products like Gen3 and Gen360, connecting 1.1 million units on Otis ONE and industrializing our modernization business. With keen operational focus, we optimized and developed resiliency in our supply chain and executed on UpLift and China transformation programs. These programs yielded sustained operational performance improvement over the past five years.

Starting this year, we added four operational initiatives. First, we drove value-driven AI micro-pricing across maintenance and repair. Second, we shifted our portfolio mix focus toward high-value Service segments and geographies. Third, we took a proactive approach in our repair offering to drive customer uptime and service growth. And fourth, we made a strategic decision to invest in service quality through our service excellence initiative to sustain portfolio growth in our key markets in the Americas and EMEA. We are seeing early signs of progress in this area and an opportunity to build a stronger operating foundation. The investment in service quality impacted margins in the short term, but we see it as necessary to fuel our growth. Service quality leads to customer satisfaction and retention, which feeds our flywheel for service volume growth across maintenance, repair and modernization.

Today, we're sharing our plan to work structurally on our Service operating model, which will drive frontline excellence. It's a program to unlock the full value of our operating potential at the local level, where our 45,000 field colleagues serve our customers every day. This will be a natural extension of the transformation we started with UpLift, which freed the frontline from transactional activities to become more customer centric. We will standardize our core field and sales processes and drive operational excellence across our frontline.

Our service operating model will leverage the learnings from the tactical investments we're undertaking in service excellence, which, as I said, are delivering promising results. We have exceptional operating territories across our network that consistently deliver robust growth, excellent customer service and strong operational performance.

Our objective is to systematically use standardized systems and tools to consistently bring every operating territory to this level of excellence. Our focus on the frontline is the logical next step in our journey since spin to build a more consistent, high-performance company. But we still have work to do to get there.

Slide 6 summarizes our progress in Service margins, which improved sequentially in Q2, but we are still seeing pressure largely from productivity and cost headwinds and the timing of our micro-pricing actions. In Q1, we communicated a plan to invest $50 million in service excellence and pricing with the goal to drive retention improvement and pricing upside in maintenance and repair. We have invested $15 million in the quarter, on track with the plan, and we're encouraged to see a step-change improvement in our service quality metrics. Our service quality index has improved 7 points, in the operating territories targeted in the investment plan. In a good portion of these operating territories, we have also seen retention improvement, but the recovery timing varies. Although our overall retention rate ex-China was down this quarter, we believe this will improve as we continue to provide high-quality service to customers.

On cost and pricing, we were able to broadly offset the impact of the Middle East conflict with pricing actions and saw a strong ramp-up of our micro-pricing initiatives in the repair business. Productivity and cost headwinds were higher than we anticipated this quarter. This has been driven by three main factors. First, our ongoing strategic investments in service excellence, impacted productivity and, together with inflationary increases, led to higher-than-expected labor and material costs.

Second, as we ramped-up resources to execute a strong repair and mod backlog, workforce onboarding took longer than expected for newly hired mechanics to reach full effectiveness, especially for highly skilled activities in repair and modernization.

Third, the acceleration of mod and repair execution required higher labor rates to make resources available where and when needed. We believe a large part of these headwinds are temporary while we adjust our operations through our service operating model to deliver on our growing backlog.

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

Cristina Méndez

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

Thank you, Judy. Starting with Service on slide 7. Service organic sales grew 9% with growth across all lines of business and regions. Maintenance and repair organic sales increased 6%, representing a meaningful sequential acceleration. Maintenance organic sales grew 3%, supported by 3% portfolio growth and 3% pricing, partially offset by mix and churn. Repair sales continued to gain momentum, growing 12%, and delivering the strongest performance in the past 10 quarters. Modernization remained a standout with organic sales increasing 24%, marking the highest growth rate since the spin. Growth was supported by strong customer demand and execution against a robust backlog, which continues to be driven by ongoing orders growth.

Modernization orders increased 9% in the quarter, driven by a strong order growth in China, up significantly. EMEA and APAC both up low-single digits, partially offset by Americas down mid-single digits due to a tough compare year over year. Modernization backlog remains very strong, up 26% year over year at constant currency. We remain confident in the long-term repair and modernization opportunity, supported by an aging installed base that continues to drive customer demand and create attractive growth opportunities over the long term. The broad-based growth across our Service business reflects the progress we are making in executing our strategy and demonstrates that our focus on driving growth is delivering tangible results.

Service operating profit of $599 million increased $16 million at constant currency as higher volume and favorable pricing more than offset higher labor cost, including the impact of ongoing strategic investments and productivity, material cost headwinds and unfavorable mix. Service operating margin was 23.2%, down 170 basis points versus the prior year. Margin performance is impacted by mix with higher modernization growth, cost and productivity headwinds, and reflects deliberate investments to support service quality initiatives and capacity to execute on Service growth.

Turning now to New Equipment on slide 8. New Equipment organic sales declined 1% in the quarter. While market conditions remain challenging, this represents the lowest rate of decline in the past nine quarters. Growing in Americas and Asia Pacific was more than offset by lower sales in China and EMEA. Americas sales increased 10%, supported by a strong backlog conversion and a healthy backlog [ph] build-to-orders (00:26:17) growth in prior periods. Asia Pacific sales grew low-single digits, driven by strength in Japan and India, partially offset by lower sales in Korea. EMEA sales declined 4%, primarily due to weakness in the Middle East and Southern Europe. In China, New Equipment sales declined high teens in the quarter, consistent with the backlog decline, but reflecting a slight sequential improvement.

New Equipment orders declined 5% year over year as a double-digit growth in the Americas and low-single-digit growth in EMEA were more than offset by declines in APAC due to tough compares, and in China. New Equipment backlog increased 4% year over year at constant currency, 9% excluding China, providing good visibility into future sales and supporting our confidence in New Equipment stability over the coming quarters.

New Equipment operating profit of $40 million declined $30 million at constant currency. And operating margin declined 220 basis points to 3.1%, in line with our expectations. The operating profit decline was driven by lower volume and favorable price and mix.

Looking ahead, we remain focused on executing our priorities, managing price, volume and cost as we navigate a dynamic New Equipment market environment. With a growing backlog, the China market sequentially improving and a strong market demand in many of our geographies, we are positive about the New Equipment prospects going forward.

Let me now turn it over to Judy to discuss the outlook for the remainder of the year.

Judith F. Marks

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

Thank you, Cristina. Turning to slide 9, our sales outlook and market expectations remain unchanged. We continue to expect the global New Equipment market to stabilize with growth in all regions except China. Our global outlook for modernization remains robust, with double-digit growth across all regions. We're watching the

Middle East conflict, but do not expect a significant impact to our outlook. We expect net sales of $15.1 billion to $15.3 billion, with organic sales growth of low- to mid-single digits.

The quarter reinforced our confidence in the sales growth trajectory of the business. We continue to see strong top line momentum, particularly across our Service segment, while we take actions to strengthen Service quality, backlog execution and customer retention to sustain growth. While our revenue outlook remains unchanged, our focus remains on executing the investments in Service quality, balancing productivity and cost management and converting strong demand into sustainable earnings growth over time.

With that, let me turn to slide 10 and discuss the key areas of focus and the progress we're seeing. As we have discussed earlier this year, our priorities have been clear: ramp up top line growth by converting the robust modernization backlog coupled with our strong growth momentum in repair; capture the flow through of our micro-pricing initiatives; improve service quality to strengthen retention; and execute cost reductions in non-frontline-related activities.

We are seeing progress in the acceleration of modern repair sales and in micro-pricing initiatives in the repair business. However, we have not yet seen a significant improvement in retention. It is taking longer than expected, and because of that, we're tempering our AI micro-pricing implementation and maintenance to balance this. We expect this headwind to have about $20 million impact versus our prior outlook for the full year.

In addition, while we've executed on our cost reduction program and expect to realize savings for the balance of the year, consistent with our prior outlook, we have experienced productivity and cost impacts, as discussed previously. We estimate this headwind to have a $50 million incremental impact versus our prior full year outlook.

While productivity remains below our original expectations, we continue you to believe that the majority of these pressures are temporary, and the actions we're taking today together with our service operating model program, will support stronger, sustained performance over time.

In summary, there are three takeaways. Revenue growth remains strong, our service quality metrics are improving, and our operational initiatives are progressing. While the timing of retention benefits has shifted and we have observed headwinds in productivity and costs, we are as confident as ever in our strategy and our Service flywheel.

With that, let me turn it over to Cristina to summarize our financial outlook.

Cristina Méndez

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

Thank you, Judy. Turning to our financial outlook on slide 11. We now expect adjusted operating profit to be in the range of down $30 million to flat on an actual currency basis, and in the range of down $45 million to $15 million at constant currency. The revision reflects the retention and tempered maintenance micro-pricing impacts, as well as the productivity and cost headwinds mentioned earlier. Our adjusted free cash flow is now expected to be between $1.5 billion to $1.55 billion, in line with the operating profit outlook change.

Moving to the 2026 EPS bridge on slide 12. The reduced operating profit outlook will result in an adjusted EPS range of $4.01 to $4.05. The change versus the previous outlook reflects the adjustments from retention, pricing, productivity and cost, as well as a negative impact of $0.04 due to foreign exchange.

Providing some color on the third quarter. We expect Service organic sales to remain as strong at mid-single-digit growth, mainly driven by repair and modernization that will continue to grow on the back of the strong orders momentum. New Equipment organic sales trend versus prior year is expected to continue to improve sequentially. Total adjusted operating profit is expected to be flattish in the third quarter. But with the impact of tax rate calendarization, we anticipate that it will result in an adjusted EPS decline at a level similar to the first half of the year.

For the balance of the year, we expect momentum to build in the second half as the operational actions Judy outlined continue to take hold. Service profit should improve sequentially as productivity increases and the benefits of our initiatives begin to materialize. Together with recovery in New Equipment volumes, this positions us for profit growth in the fourth quarter.

Stepping back, we recognize in the last quarters we have faced challenges in Service, which we are actively working to address. Execution of UpLift, while setting the foundation of a stronger and more efficient operating model, did cost some disruption in Service execution in 2025. In addition, portfolio mix has been a headwind driven by geographic mix and a recent increase in cancellations.

UpLift has been completed and our new operating model is working and running and stable. We have taken the decision to reinvest in the core of the business and we recognize 2026 is a year of investment. This requires a cultural shift into service quality and customer centricity, impacting short-term results. However, we strongly believe that the investments we are making today in service excellence are creating a strong foundation for the future. And as a next step, we plan to systematically drive excellence across our 1,400 operating territories through our service operating model.

In addition to the maintenance strategy, we are excited about the sustained growth in repair and modernization that is expected to continue. This and the New Equipment business being back to growth in the second half with a growing backlog gives us confidence that we are well positioned to sustain our industry-leading margins and capture growth for years to come.

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 do 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 Nigel Coe with Wolfe Research. Please go ahead.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. Thanks for the details on the guide. I think you've kind of made it clear that you've dialed back on the micro-pricing. But I wonder if you can maybe just talk about some of the productivity headwinds that you're seeing. That wasn't clear. And then maybe, Cristina, could you just maybe just lay out kind of how you see the Service margin progression through the balance of the year?

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

A

Yeah. Thanks, Nigel. So listen, let me be clear what we're doing with the AI micro-pricing. First of all, we've seen tremendous success with it in our repair business. We see it, we see it flow through, and we see it flow through rather quickly because from the time we take an order, we typically execute that repair backlog in a period of short, low-single-digit months, one or two months, and then we see it flow through. So we're very pleased with the ability to get price there.

On the maintenance side, there's really two factors going on. One, which we've always known, is most of our maintenance contracts come up every few years, so we don't have the opportunity to reprice them on an annual basis. So when they come up, we're trying to drive for that. But trying to balance retention rates with additional micro-pricing is where we're trying to find that balance, Nigel, that says, in the maintenance contract let's see what's appropriate. We understand where our costs are, and the micro-pricing is giving us that detail by segmentation.

But we also don't want to drive additional potential customers who are on the fence because of our former service quality challenges that we're now investing in. We don't want that to be the tipping point for them. So it's an account-by-account balance when we say we're kind of rebalancing that, more so than a wholesale change or a pullback.

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

A

Nigel I'm complementing to your two other questions about what happened with productivity and our expectation of Service margin ramp-up in the second half. So first stepping back, we are very pleased with the Service revenue take-up in the second quarter. This is in line or even above expectations. And also, the investments we portrayed in the last quarter, we said $50 million this year, they are progressing exactly on plan.

What we have observed in the second quarter on productivity is twofold. On the one side, as we are investing, we see the cultural shift into quality and customer centricity that is creating some headwinds in productivity that we are actively addressing. The second component is temporary that is related to the ramp-up of resources because we are increasing the number of mechanics that we are allocating into highly skilled activities, repair and modernization, and the onboarding time is longer because of the preparation required for those activities. And second is we have significantly accelerated execution of mod 24% in the quarter in order to deliver our customer commitments. And this creates some headwinds in rate in order to have the resources available when and where needed.

Now, looking into the second half of the year, we are very positive about revenue growth. This is going to continue. We are expecting in Service approximately 6% revenue growth in the second half of the year. The reason from 9% to 6% in the second half is because modernization will normalize to a low-teens level. Then on the New Equipment side, we are also going to continue growing. In fact, we expect positive growth in Q3, and the margins have stabilized.

Looking at the margins in Service, when you compare first half that are around 23.1% with the second half expected around mid-24%, this is a 150 basis point margin expansion in the second half based on 80 basis points from repair price. This is happening, we see that coming in the backlog. 50 basis points coming from modernization and repair volume. Also happening, we have the orders in place and we have the resources to execute. 30 basis points is the SG&A allocation into Service. You may remember that we communicated $10 million restructuring in non-frontline-related activities last quarter. This has been executed in the last two months and we are now going to capture the benefit in the P&L.

And we'll have a little bit of headwinds from FX because of the mix, where the FX moves are coming from. This is assuming the productivity headwinds we have seen in Q2 will continue in the second half, which is an opportunity for us to address and to do better.

Nigel Coe — Q
Analyst, Wolfe Research LLC

Okay. I realize I asked a multi-part question there, but maybe if I could just follow-on. And before I do that, Cristina, I just want to say congratulations on the World Cup. Huge for Spain, obviously.

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

Thank you, Nigel.

Nigel Coe — Q
Analyst, Wolfe Research LLC

It's very important, obviously, to mention that. And then, just on the retention, Judy, I think you mentioned retention has taken longer to improve and has taken longer to achieve. So just maybe just to kind of put a bow on that point, why is it taking longer and are you still confident by year end you're going to make progress?

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

Yeah, we're absolutely going to make progress and continue. Nigel, you've always heard me say orders can be lumpy. Retention varies by quarter, which is why we try not to report it quarter over quarter. But we certainly watch it more frequently than that. And what we're seeing is just some – we had some retention challenges primarily in our portfolio in the Americas, was down, not significantly but down a little. And that's why we are investing in service excellence and we're continuing to do that throughout 2026 because where we see we've made the investments we're seeing the service quality improve.

That hasn't instantaneously changed the retention rate. You're talking about a portfolio of 2.5 million units with the average customer having 4 units across the globe. So we have a lot of customers and we really need to drive the service operating model combined with service excellence and customer centricity. And all of that we really are convinced will show improved retention at year end.

We understand how important that is and we did see portfolio gains in EMEA. We did see significant portfolio gains in China in high-single digits, and we did see it in Asia Pacific as well. So we're comfortable that we have the trajectory to get there. We're also comfortable we've got the initiatives and the focus to get there.

I can tell you, if you stop any Otis colleague, who I really need to thank, our 72,000 colleagues are working diligently every day, but so many of them are customer facing. And if I ask them, what do you think is most important? I think they're going to answer, first, safety because it's one of our absolutes. And the second thing they're going to say is satisfying our customers. And that's the culture change that we want to ensure endures, and then we measure it through retention.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Thanks, Judy.

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, thanks. Good morning, everyone. Judy, I just want to come back to retention for a follow-up. Maybe just kind of get to the root cause. Sort of the nature of my question is, right, we kind of had the retention disruption with kind of the UpLift program. There was some customer connectivity that wasn't clear until the program was executed and it caused some disruption. I sort of thought that was behind us. So is it really you're seeing just more elasticity to price now as you're moving through this? I guess, I'm not surprised retention is not going up quickly, but I'm a bit surprised that it's gone in reverse in at least a couple of places.

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

A

Yeah. Listen, Jeff, it's gone in reverse in a couple of places, but only by – if you look at the first half of the year, I'm not going to give you a number but it's a small number of basis points. But you know us to be transparent, we're always going to tell you whether it's up or down and share good news and bad news, but make sure we act on it. It's not pricing elasticity. It's not ISPs gaining share. It really is if you think about a four-year contract in North America, we still have some residual flow-through regardless of the service excellence we're doing with some customers who are choosing to change based on multiple years. We are focused on addressing that through service excellence. I think the service operating model will address that in total across the enterprise.

And so, these [ph] lighthouse (00:44:39) operating territories where we've done the service excellence, you've seen the 7% gain. And the majority of those, the clear majority of those have much higher retention rates that track with those service quality metrics. But it's not what people naturally go to on price or on a different service offering from an ISP.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Understood. And then, just the comment – I think that was Cristina. I think she said kind of the shift to quality has negatively impacted productivity. Is that indicative of just the higher level of training or what's really sort of the root of that?

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

A

Well, part of the root of it is as we – it's really interesting in our industry. And again, with 2.5 million units, some are mainly Otis, but other non-Otis equipment, the equipment's aging. And we see that, obviously, through the great upside we've seen in repair and modernization revenue, and that demand is going to continue. But with that comes some more complex maintenance that has to happen on our comprehensive contracts. And so as we see that unfold, that's not so much – there's some labor involved in that and we discuss that. But there's even more material involved for some of these contracts where we offer comprehensive service. And we have seen inflation in repair parts, we've seen inflation in raw materials. But especially in repair and spare parts for the non-Otis equipment, we've seen pretty significant inflation and we have our maintenance contracts for four years. So that's what we need to offset. And we've seen that because of the quality focus. So that's what we need to offset with productivity and eventually with price when that comes up for renewal.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Understood. Thank you very much.

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

A

You bet.

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 morning, ladies. I wondered if you could just expand a little bit on this tempering of micro-pricing point. I think Jeff was talking or alluding to the fact that maybe you've got a bit of price sensitivity and it sounds like you still got a bit of a hangover from the sort of legacy customer quality issues. I'm just wondering how much of this is a sort of a function of you trying to push the price up and discovering that actually these guys are going to walk away so you're going to just temper that, and that's what tempering means. I wondered if you could talk a little bit about what you were expecting before versus what you expect now because it feels like it's quite a big swing. So if you could expand on that, that'd be super helpful.

And just as a follow-up on the Service margins. Cristina, thank you for all of the detail on that. That's super helpful. I just wanted to clarify, ultimately. You talked about productivity headwinds remaining in the second half despite all of the other things you talked about as a tailwind. So as we roll into 2027, what should we be thinking about in terms of these productivity headwinds, the $50 million as we look to 2027? Thank you.

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

A

Alex, thanks for the two questions. Let me address first the pricing question. So first, clarifying that we are executing our usual price increase in maintenance stable, as we have done before. This year, our goal was on top of the usual price increase we wanted to add micro-pricing that we knew in maintenance was going to take longer because of the time of the negotiation of the price adjustment and the time to penetrate the base.

Repair is working exactly as we expected. And you may remember we said we're going to have $50 million incremental price impact this year, $35 million were from repair. This is in the outlook and is unchanged. It's the $15 million coming from maintenance that we are kind of balancing out with what we see the cancellation. We think of micro-pricing is we can be very targeted. We are not increasing the same price to everyone. So we are only tempering in those customers where we see the quality indicators are not there. We are not pushing those initiatives on top of the incremental price increase that we always have because of inflation. So, it's jus the upside from micro-pricing that is coming later because we are prioritizing retention.

Now, moving to the Service margin question and what it means for 2027. I want to reinforce the point that we are still very, very confident that our investment thesis on the flywheel remains unchanged. We are a strong generator of profit and cash flow and we are very encouraged by the revenue take-up. And that's going to continue over time because we see an ongoing orders intake in repair and modernization of around low- to mid-teens, in the [ph] case of mod higher than repair. (00:49:41)

While we have those orders, we are also building up the operational machine. We are ramping up resources in order to execute sustainably these ongoing growth in sales. While we ramp up the resources and we also invest in the core of the maintenance business, we have seen some short-term headwinds in our results because of the cost to ramp up. But we are confident that we can address them because we have a great track record of [ph] addressing (00:50:11) efficiency, productivity on the field. And that's what we are going to do going forward.

So now looking into 2027, you can expect an ongoing revenue growth. New Equipment is going to grow because we have a growing backlog and we will see the growth happening in the second half of the year. We see Service ongoing growth. On the profit side, New Equipment margin should gradually get better. And on the Service side, you are going to see the ramp-up in the second half of the year. Service margins are going to expand. We will come back to you on due time on precise guidance for 2027.

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

A

Yeah. Alex, let me add just some color here and some commentary. And as we were preparing for this – and Cristina said, and you think about the five years since spin, we do know how to manage productivity, operational effectiveness. We've shown that within multiple headwind scenarios, whether it was COVID or something else or supply chain challenges. We know how to do that.

I hope you all realize we recognized that we were going to see an increased demand signal in our markets in the elevator and escalator markets that's a little unprecedented for at least the past, let's just say, decade. We saw that the Service business was going to ramp up due to the aging of equipment, and we knew we needed to prepare for that. That's different type of muscle and culture and process to be able to simultaneous globally handle the ramp-up of a Service business, whether it's through our workforce, whether it's through tools and technologies. But we started investing by hiring mechanics well over a few years ago. We brought on about 1,000 each year. We're continuing to do that. We've put training programs in place. The investments we've made in service excellence are for preparing for the future but also reacting to our retention that went down at the end of 2024.

And I just want you to understand the ramp were on and why we're investing this year and actually why we took the outlook down. I think it's important for everyone. As we look at 2025 in Service, on the top line, our maintenance for the year was up 2.5%, repair was up 5.3%, and mod was up 9.3%. This quarter alone, maintenance was up 3%, repair was up 12%, and standout on mod on 24%. I don't believe it'll stay at that level. I think it'll normalize a little into the teens. But that was the ramp we knew was coming.

And it's not a short-term ramp. It's not a few-quarter ramp. This is a multi-year into the 2030s ramp as we see all this equipment aging. So this was our time to prepare and this is what we're doing with the service operating model. This is how we're getting ready. Like many other industries are getting ready for technology change and everything else, this is our industry's time and this is how Otis decided to invest and to lead.

We understand that bringing the outlook down is not ideal. And while we're making these investments, we have seen increased costs in material, in labor, and we haven't been able to recover that fully in pricing. We understand that. But these investments will prepare us not just for 2026, but for 2027, through 2030 and beyond, because the demand signal is there.

I couldn't be more pleased with the top line and what we've been able to show. We have not had results like this previously. That is going to continue, plus or minus a point or two. That is going to continue as we go through the year and through the out years. And again, we'll share more outlook in 2027.

Alexander Virgo
Analyst, Evercore ISI International Ltd.

Q

Very helpful. Thank you very much.

Operator: Your next question comes from the line of Varun Govindaraj with Bernstein. Please go ahead.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Thank you. Good morning, Judy, Cristina, Imelda. Quick question, just touching on the EPS number again. When we look at that $0.20 that you sort of [ph] cut for (00:54:33) the back half of the year, obviously you've talked a bit about that being the mix. Are there any investments sort of baked into that as well? I'm just trying to get a sense of how much of this is structural versus how much of this is temporary. And I know we talked about it a little bit, but any clarity you can share on the numbers would be super helpful.

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

A

Yeah. So, Varun, on the investments we communicated in Q1 $50 million investments, 5-0. This is included in the outlook and is progressing as we said. Out of the $50 million, we have invested $15 million each quarter in Q1, Q2, so $30 million in the first half of the year, and we expect another $20 million in the second half of the year.

Now, moving into the productivity headwinds, and we are now anticipating another $50 million, 5-0, incremental to the previous outlook. $30 million out of that is temporary because it relates to the ramp-up of resources and the higher rate in order to accelerate execution. $20 million relates to what Judy mentioned before about the inflation, material that we are investing in order to drive quality up in our service excellence program. And we are going to address these productivity and incremental material costs with our service operating model program.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Got it. Super helpful. And then, quick follow-up in terms of hiring. How is that looking for the back half of the year, do you sort of have the head count that you're looking for, are you still trying to pull talent? I know that this is a tough environment for technical talent more broadly just given the amount of demand, but how are you sort of thinking about that?

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

A

Yeah, the way we're thinking about it, so I always try to remind people that we have a professional skill trade that is not something that moves to become electricians or welders or something. Our mechanics, they train, they are true professionals and they stay in this industry for the majority of their careers. So we're not competing with the buildup of data centers that's grabbing a lot of other skilled trades. As a matter of fact, our data center business, especially in the Americas, has been up significantly. So we're not competing with that, but we are competing with all of the other challenges that – with an aging population versus less availability of people who want to go into trades. We are focused on that.

Our hiring is pretty geographically dispersed. It ranges from Asia Pacific markets to EMEA markets to the Americas. Obviously, China's at a stable point, and many of our China field teams actually support us in the rest of the globe. As we go through surges, they become field traveling teams. So we're not concerned. We said we would think this year would end about where we've ended the last two years, around that plus 1,000. We're well on track for that. We're controlling voluntary attrition to the best of our ability with our mechanics, because that's the best place, is to retain mechanics. We obviously have mechanics who are retiring, but we have just as many mechanics in zero to 5 years with us as we do in 30 years plus. So we've got a nice distribution. We're not seeing a cliff with huge retirements, but we're balancing that in these 1,400 operating territories on a real-time basis.

And then obviously, as we bring new mechanics on, some are skilled, they're coming from other competitors and other companies, others are brand new into the industry. And that's the mix where we're trying to address the more complex repair and mod growth versus the skills required for maintenance.

Varun Govindaraj
Analyst, Bernstein Institutional Services LLC

Q

Appreciate the color. Thank you so much.

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

A

You bet. Thanks, Varun.

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

Yeah, thanks. Good morning.

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

A

Good morning.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Just on the kind of bridge to get to what you guys had talked about for 3Q and 4Q. Cristina, is it possible to give some color around the exit rate on Service margins? My math is kind of telling me that you have to exit around mid-20s to get back to profit growth in the fourth quarter, but if you could confirm that. And then I guess if we could talk through some of the major bridging items that drive the improvement in Service margins from Q3 to 4Q.

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

Yeah. Sure, Nicole. So first, some color on Q3 and Q4. On Q3, we expect Service revenues to grow around 6%, which would be maintenance and repair around 5%, and low teens in modernization. We expect margin rates to gradually ramp up in Q3, will be around mid-24%. And on the New Equipment side, we will move into growth and it will be around low-single-digit growth in the quarter, and growth will be in line with the second quarter. So overall, as I said before in the script is operating profit flat, although EPS will be down because of the CALENDARIZATION of the tax initiatives in the year that are very back-loaded into Q4. Now, your maths were correct in Q4. In Q4, we expect operating profit growth on the back of ongoing growth in equipment with more or less stable margins, ongoing growth in service, revenues also around 6%, but with another ramp-up in Service growth.

So the ramp-up is essentially coming from repair price that is in the backlog. So we see it's just a matter of executing this backlog. It's about the acceleration of modernization and repair volumes also in the backlog. SG&A will be reduced. So the growth we have seen in the first half will be lower in the second half because we will see the flow-through of the restructuring actions activated in the last two months. And we have some headwinds on FX compared to the first half.

So that will end in around 25% margin by Q4 that will be for the full year a touch below 24% for Service growth.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Understood. That makes sense. Thanks, Cristina. And I guess just kind of back on the price cost point. Steel costs have continued to go up alongside what's happening with your pricing and micro-pricing initiatives. How are you guys thinking about the impact of price cost in 2027? Is that when we start to see the impact of the steel inflation come through based on the timing of your steel purchases? And how confident are you that you can pass that through via price? Or is it possible that price cost could be a challenge in 2027?

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

Yeah. Listen, we're not going to give you – to guide to 2027. But I think it's important to understand that from a commodities perspective, we have locked-in the majority, almost 98%, of our commodities globally for the rest of this year. And where that impacts is not just on New Equipment, but on mod. So it's in both segments and/or sub-segment, if I may. Listen, we have the ability to price and to have that flexibility as needed and have discussions with customers. We had that when the Middle East flared and we needed to raise prices besides the normal price adjustments we get on Service.

So 2027, we will continue to monitor. We'll walk in early for 2027 if it makes sense. We continuously review this and we do this local for local. Remember, we manufacture local for local. And while we may have global purchasing agreements, they do get implemented on a local basis at our 16 manufacturing facilities. So we're going to continue to watch that. Our raw material costs typically are $600 million to $700 million a year. So it's not a huge number for us because so much of our revenue, and our profit especially, is in the Service side. So we know we have this year covered and we're preparing already and evaluating 2027 with actions now. It's all about supply chain resilience. It's all about productivity and, obviously, getting material productivity from our suppliers. And we've shown we know how to do this in the past, and you're going to see that again in 2027.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Very clear. Thanks, Judy. I'll pass it on.

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

A

Thanks, Nicole.

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. Thank you for taking my questions. If I could just go back quickly to the operating profit. You said that in Q3, operating profit should be flat sequentially. Just want to confirm that.

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

A

Yeah. Lewis, I said flat versus the prior year.

Lewis Merrick
Analyst, BNP Paribas SA (London Branch)

Q

Oh, that is – okay. Fine. And then on the New Equipment, I mean, during the quarter it looks like you maybe lost a bit of market share based in the order intake. What in your view really drove that? I mean, is it pricing competition, a one-off issue or something else?

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

A

Yeah. Lewis, I don't think we lost share in the quarter. Our backlog is actually up 4%. If you look at New Equipment, for us a standout performance in North America yet again for the eighth straight quarter where their orders were up 15% again after a strong 24% in the first quarter. And I'm really thrilled to share that we are just honored. Most recently, we were announced – our partnership and collaboration with Silverstein Properties and Turner Construction, where we secured 60 elevators and escalators at Two World Trade.

China New Equipment is in line with us. As a matter of fact, everything China this quarter was as expected. Whether it was the market or how Sally and the team performed, it was exactly as we expected in New Equipment, and it's in line. And as you see with our New Equipment service, our least – down in nine quarters. We really are starting to see that pickup.

In Asia Pacific we had two major projects in India and in Singapore last year. So it's a compare issue there, which is why the New Equipment orders look down. So I'm confident in New Equipment. I don't believe it's – we compete with ISPs. They're not taking our share anywhere we can see. And we're going to continue to – again, we always knew we would get to a place in New Equipment. It's taken us a while. That's taken the market a while to where we can have that ability to finally grow again and not have the headwind of New Equipment. That's what you're going to see in the second half of the year with a 10% up in the Americas in the second quarter, and that continuing because we've had eight straight quarters of New Equipment growth.

Just one other comment on – and let me just correlate it to mod, in case you had the question there. Our backlog is up 26%, which is still a tremendous backlog. And we need to execute it, we need to convert it. And we showed we could do that with 24% this quarter. But no one's taking share from us in mod right now.

Our China mod orders were up over 100%, some of that due to the bond stimulus, but also due to a tremendous project called Tianjin 117, where we're going to supply 250 – over 250 elevators and escalators to the tallest current construction or modernization site in China. So, that's going to get converted as we go through the year.

The compare is going to be tougher on the mod stimulus because it was more second half loaded last year. But you're going to see strong mod performance through the back of the year. And mod orders, we had a couple of tough compares. Second quarter last year had a great, large commercial win in the US and another large commercial win in Australia. And so, it would have been double digits without it, but we don't report that way. I just want you to understand the bridge.

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

Yeah. That's helpful. Thank you very much. I'll pass it over.

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

Thanks Lewis.

Operator: And that concludes our question-and-answer session. I will now turn the conference back over to Judy Marks 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 profitability. Together with fundamental tailwinds of the aging installed base, Otis is well positioned to deliver attractive, sustainable, long-term shareholder value through our Service business.

Thank you, all, for joining us today. Please stay safe and well.

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