



KONE Q1 2020

APRIL 22, 2020

HENRIK EHRNROOTH, PRESIDENT & CEO

ILKKA HARA, CFO

Q1 2020 Highlights

- Resilient sales and orders in an exceptional operating environment
- Profitability burdened by COVID-19 related items
- Robust global supply chain despite restrictions
- Good progress in the roll out of KONE DX Class elevators



Q1 2020 Key figures



RESILIENT ORDERS AND SALES, ADJUSTED EBIT MARGIN BURDENED BY COVID-19 RELATED FACTORS

		Q1/2020	Q1/2019	Change	Comparable change
Orders received	MEUR	2,109.3	2,094.1	0.7%	0.3%
Order book	MEUR	8,386.4	8,454.7	-0.8%	1.2%
Sales	MEUR	2,198.3	2,198.8	0.0%	-0.5%
Operating income (EBIT)	MEUR	197.2	215.4	-8.4%	
Operating income margin (EBIT %)	%	9.0	9.8		
Adjusted EBIT	MEUR	205.6	228.4	-10.0%	
Adjusted EBIT margin	%	9.4	10.4		
Cash flow from operations (before financing items and taxes)	MEUR	346.9	377.6		
Basic earnings per share	EUR	0.29	0.33	-9.4%	

How is the COVID-19 crisis impacting KONE?



New equipment and modernization

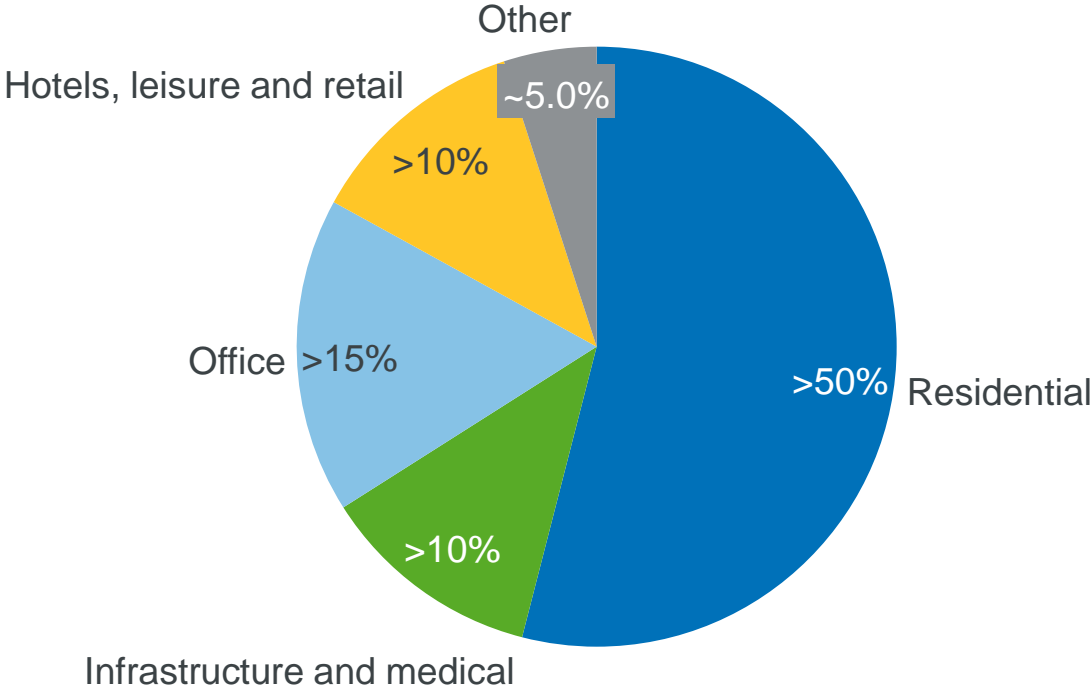
- Some construction sites and buildings closed due to the lockdowns
- KONE's robust global supply chain has enabled minimal disruptions for customers
- Demand for KONE's solutions is expected to be impacted by the prevailing uncertainty

Maintenance

- Maintenance is by nature very resilient through cycles
- Elevator and escalator maintenance deemed an essential service in most countries and allowed with some limitations
- However, some customer sites are closed and there is less discretionary activity, like repairs

KONE's exposure to different customer segments

Illustrative

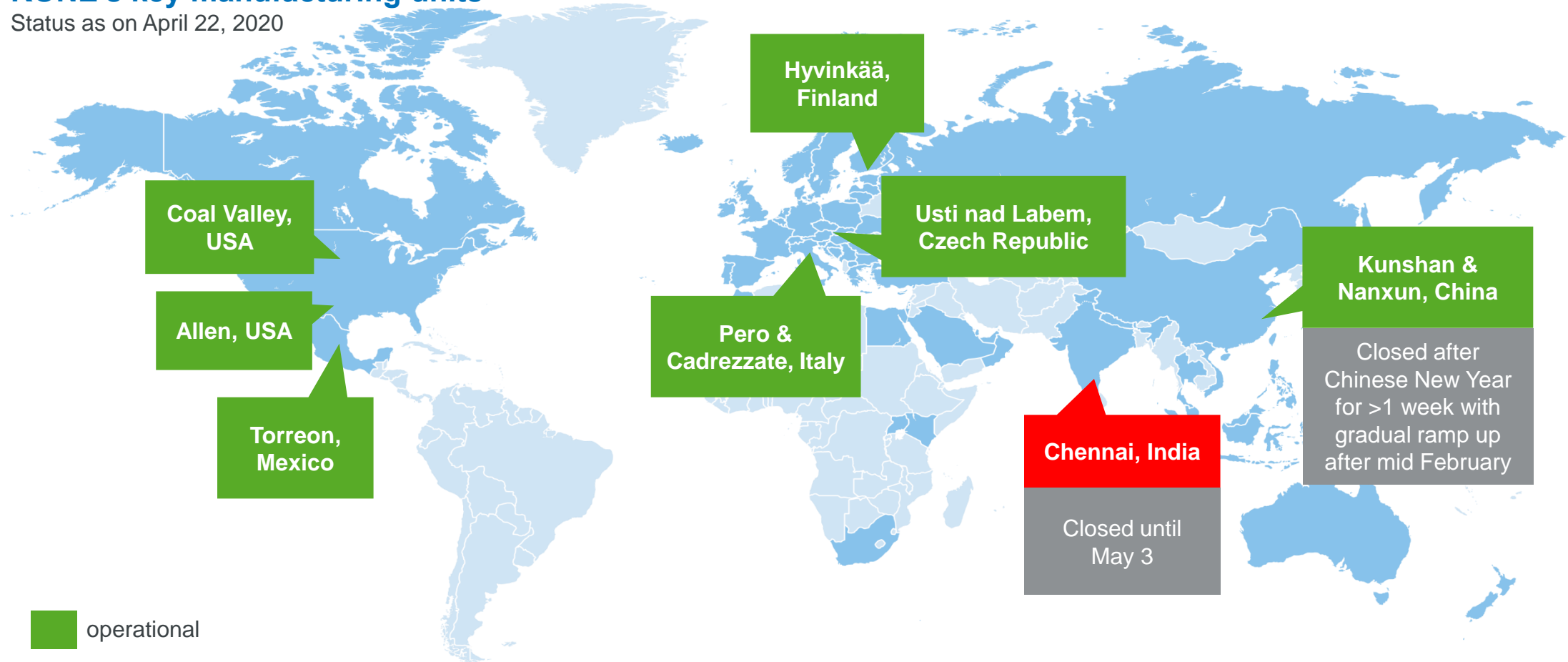


KONE's global supply chain has remained robust during the crisis



KONE's key manufacturing units

Status as on April 22, 2020



 operational

Focus areas in COVID-19 environment



WE ENSURE THE HEALTH AND WELLBEING OF OUR EMPLOYEES. WE SUPPORT OUR CUSTOMERS AND WE WILL FIND OPPORTUNITIES TO BECOME EVEN STRONGER



Safe working and business continuity



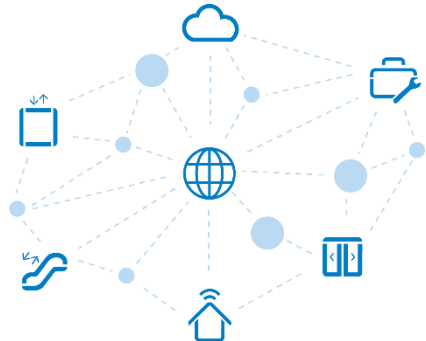
Wellbeing, engagement and care for our people



Cost containment and financial risk management



Customer activity and sales



Mid- and long-term opportunities to drive differentiation

Appointments to the Executive Board



Ken Schmid

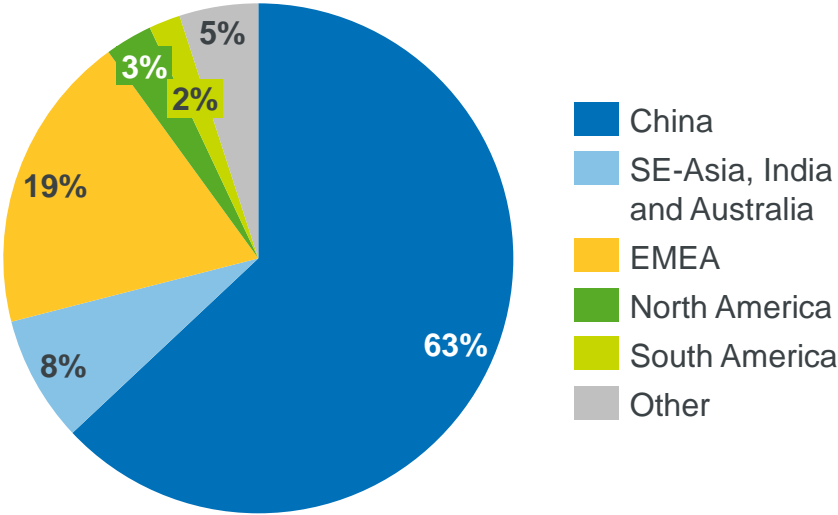
Ken Schmid has been appointed Executive Vice President of KONE Americas as of April 1, 2020.

KONE's market position strengthened in 2019



New equipment market in 2019

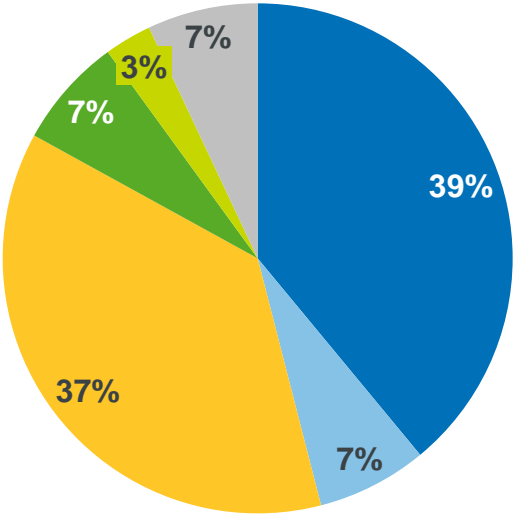
~1 million units



In new equipment KONE's market share increased slightly driven by China and several European countries and was ~18%*

Equipment base in 2019

~17 million units



In maintenance, KONE continued to be a challenger with a market share of close to 10%*. The strong position in new equipment continues to drive brisk growth in maintenance

Based on KONE's estimate. Figures have been rounded.

* In regions where KONE has presence, maintenance market share includes both maintenance base and units in first service. Market share has been calculated with a re-assessed market size

KONE is leading the way in sustainability



-3.1%

Operational carbon footprint



37% of all electricity consumption at KONE facilities comes from renewable sources



15 elevator models with A class ISO 25745 highest energy efficiency ratings and 4 escalator models with the best A+++ rating



Achieved a place on CDP's prestigious A List for Climate Change as the only elevator and escalator company



Industrial Injury Frequency Rate improved to 1.7



Share of women at director level positions increased to 18%



Recognized on Forbes' 2019 Global 2000: World's Best Employers list



Ranked 32nd in Corporate Knights' 2020 Global 100 Most Sustainable Corporations in the World ranking

Read more in our 2019 Sustainability report published today




Market development



Operating environment in the Americas region

Current situation in COVID-19 related restrictions

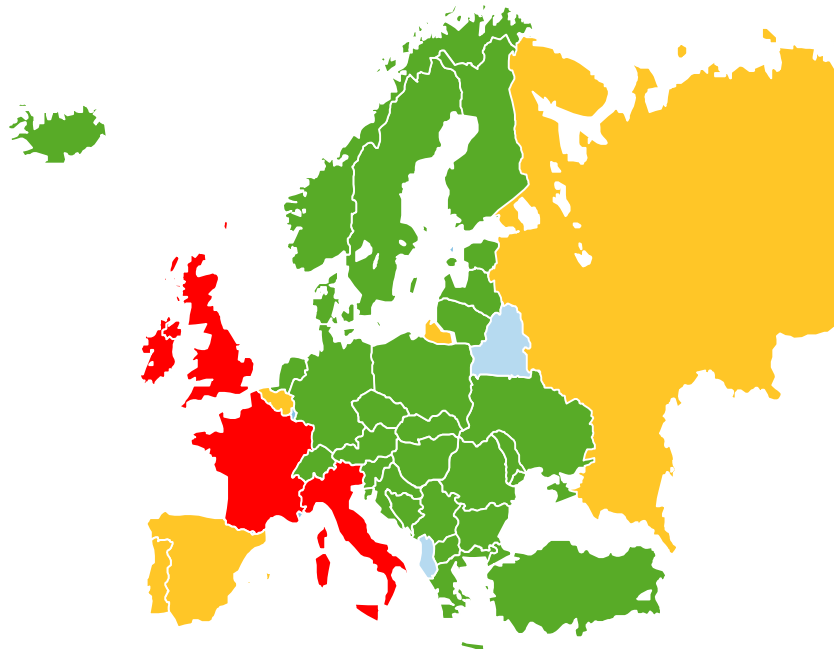





-  Majority of construction sites closed
-  Some construction sites impacted
-  Majority of construction sites operating fairly normally

- Stable market environment until March after which wide-ranging restrictions were imposed
- The situation varies significantly between the states and provinces
- Elevator and escalator maintenance deemed an essential service in most countries, but some customer sites are closed especially in the travel, leisure and retail segments

Operating environment in the EMEA region

Current situation in COVID-19 related restrictions

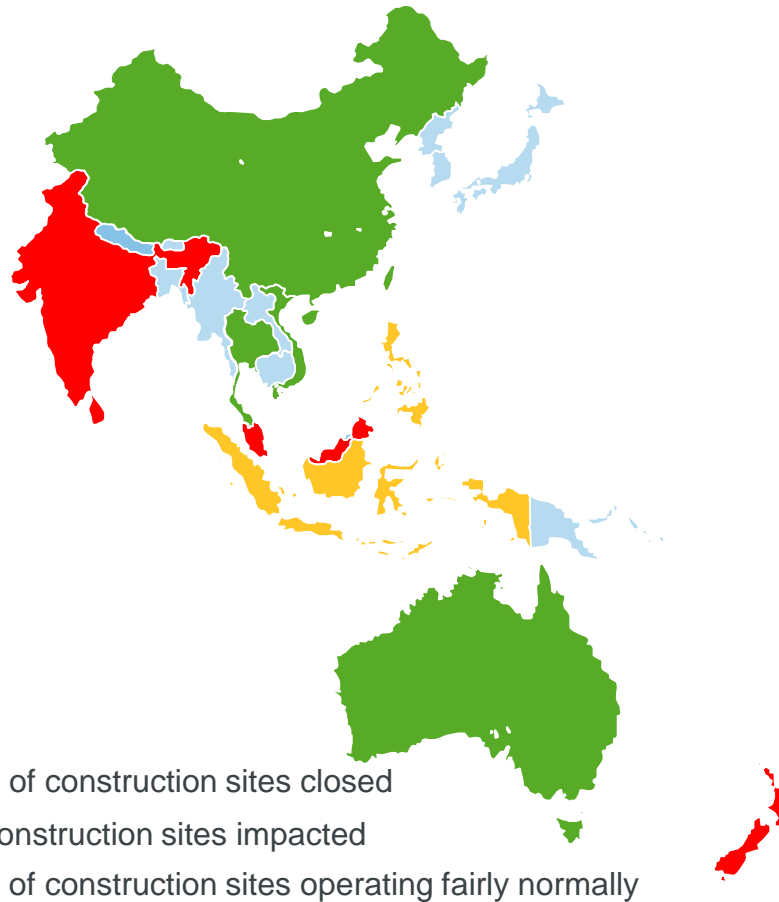


-  Majority of construction sites closed
-  Some construction sites impacted
-  Majority of construction sites operating fairly normally

- Stable market environment until March after which wide-ranging restrictions were imposed
- In Middle East and Africa, the situation is becoming more difficult with currency fluctuations and low oil price contributing to the uncertainty
- Elevator and escalator maintenance deemed an essential service in most countries, but some customer sites are closed and there is less discretionary maintenance activity

Operating environment in the Asia-Pacific region

Current situation in COVID-19 related restrictions



- Elevator and escalator demand declined significantly in the region in Q1
- Full lockdown in China for around three weeks around the Chinese New Year. Gradual opening-up since mid-February and currently good level of activity
- Increasingly strict measures have been implemented elsewhere in Asia-Pacific since March. In India, there are currently very strict restrictions in place
- Elevator and escalator maintenance deemed an essential service, but some customer sites are closed and there is less discretionary maintenance activity

Chinese property market in Q1 2020



- In units ordered, the new equipment market declined significantly y-o-y
- Pricing environment was fairly stable, some signs of intensifying price competition



- Infrastructure investments expected to grow significantly to boost economic activity
- Government continues to restrict the activity in the residential market
- Improved liquidity situation in the market



- Real estate investment +1.2% y-o-y in March
- Residential sales volume -14.1% y-o-y and new starts -10.4% y-o-y in March
- New home prices in the 70 biggest cities -4.2% y-o-y in March



- Consolidation among property developers continues

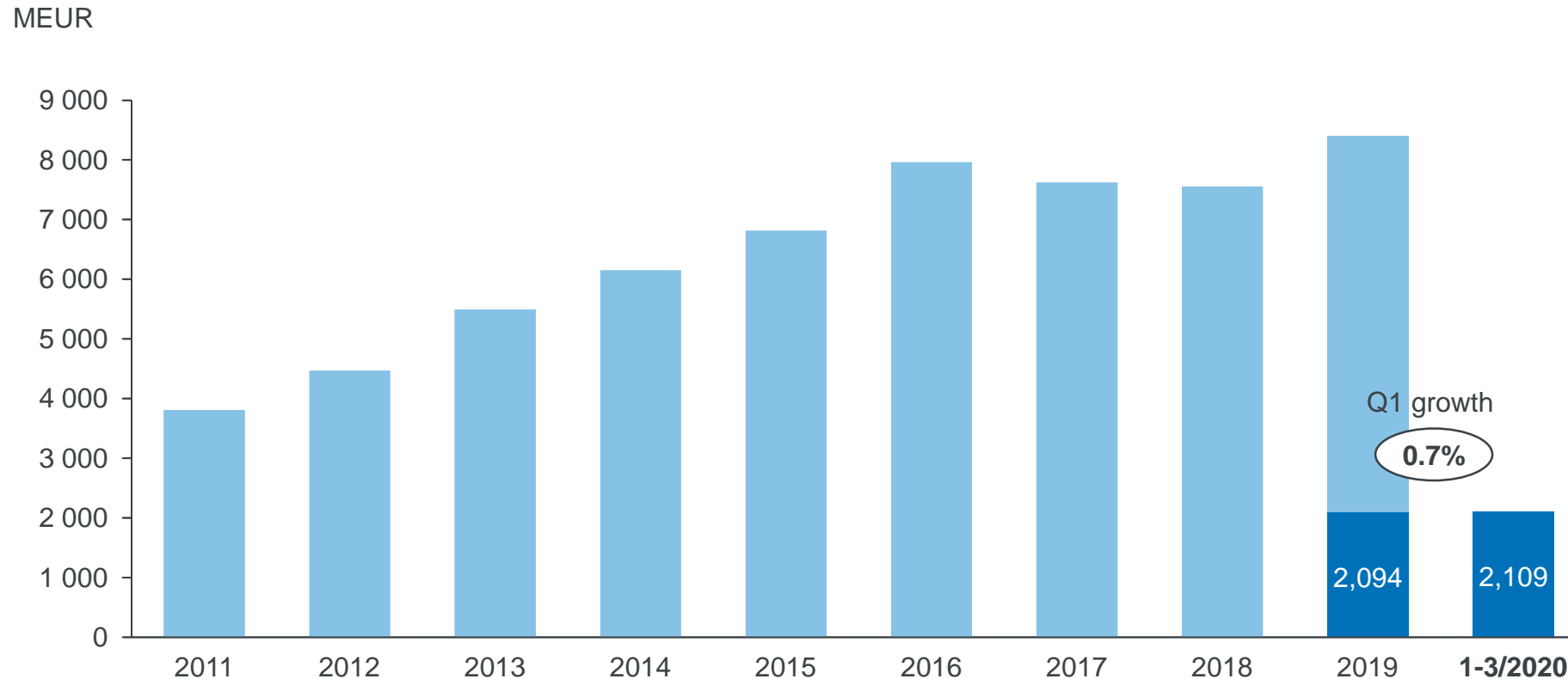
Q1 Financials



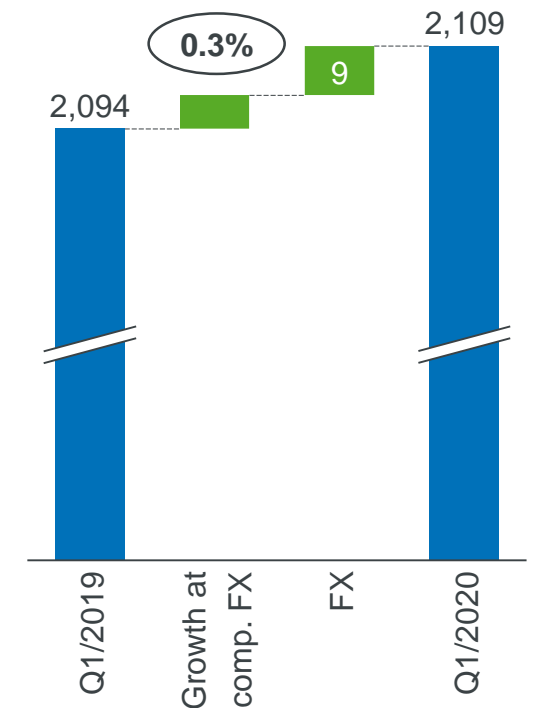
Orders received



ORDERS GREW CLEARLY IN AMERICAS AND SLIGHTLY IN APAC AND DECLINED SLIGHTLY IN EMEA



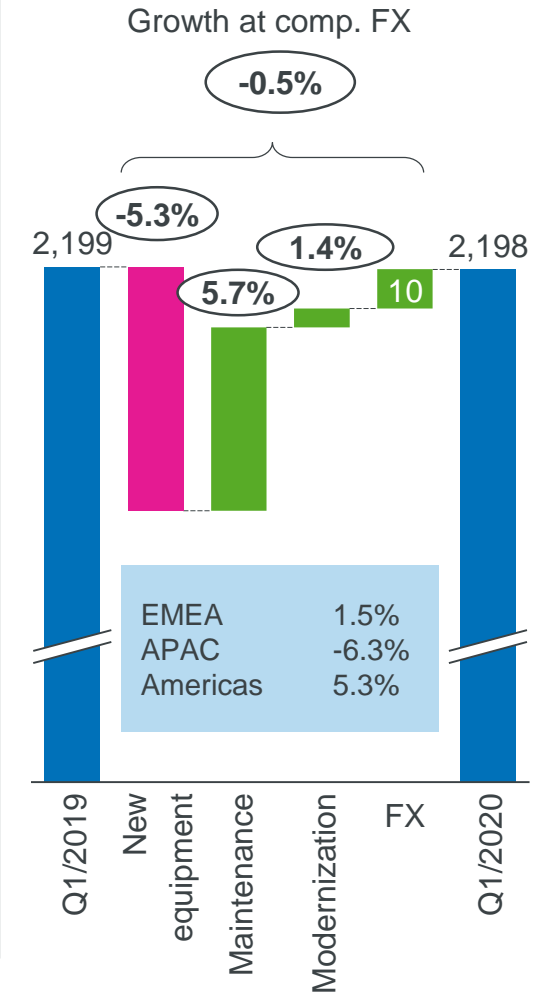
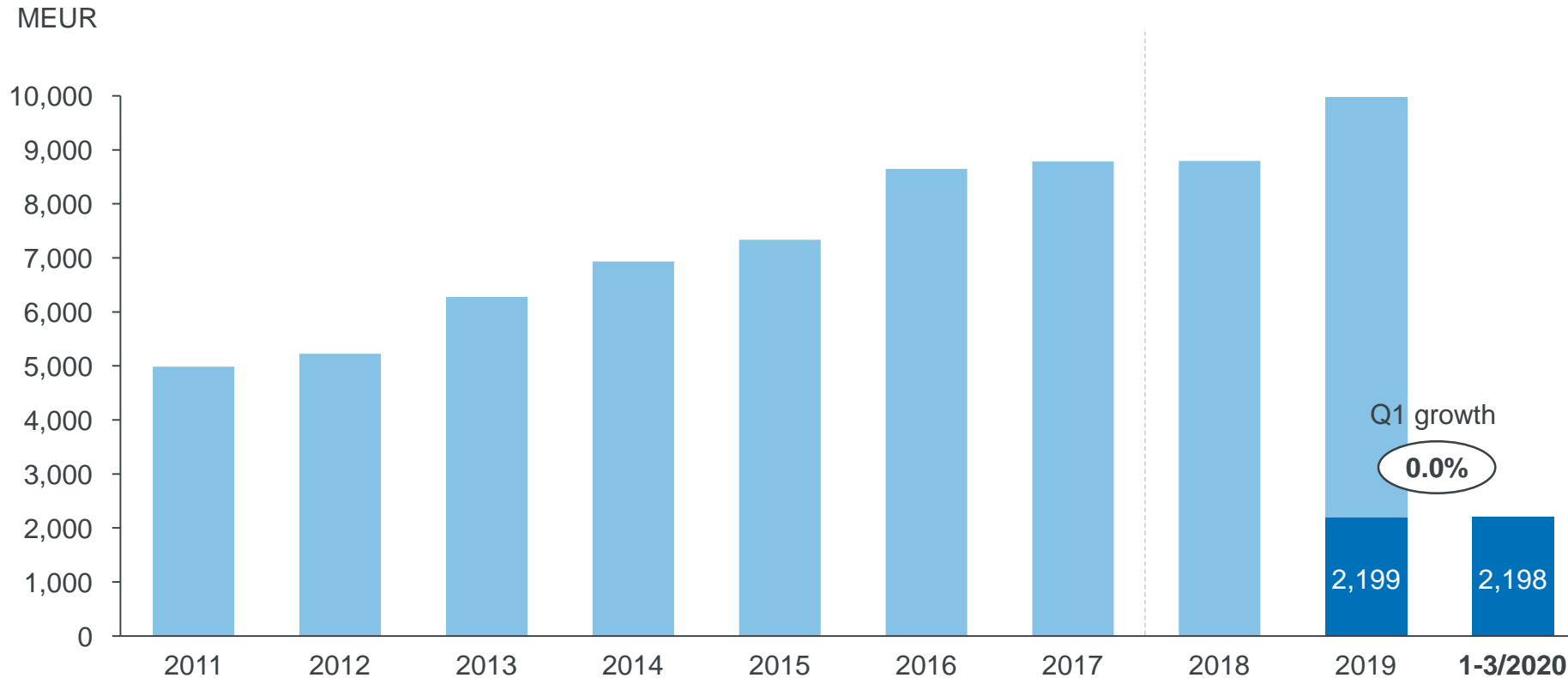
- In Q1, the margin of orders received improved slightly



Sales



GROWTH IN SERVICES OFFSET THE DECLINE DRIVEN BY COVID-19 IN NEW EQUIPMENT



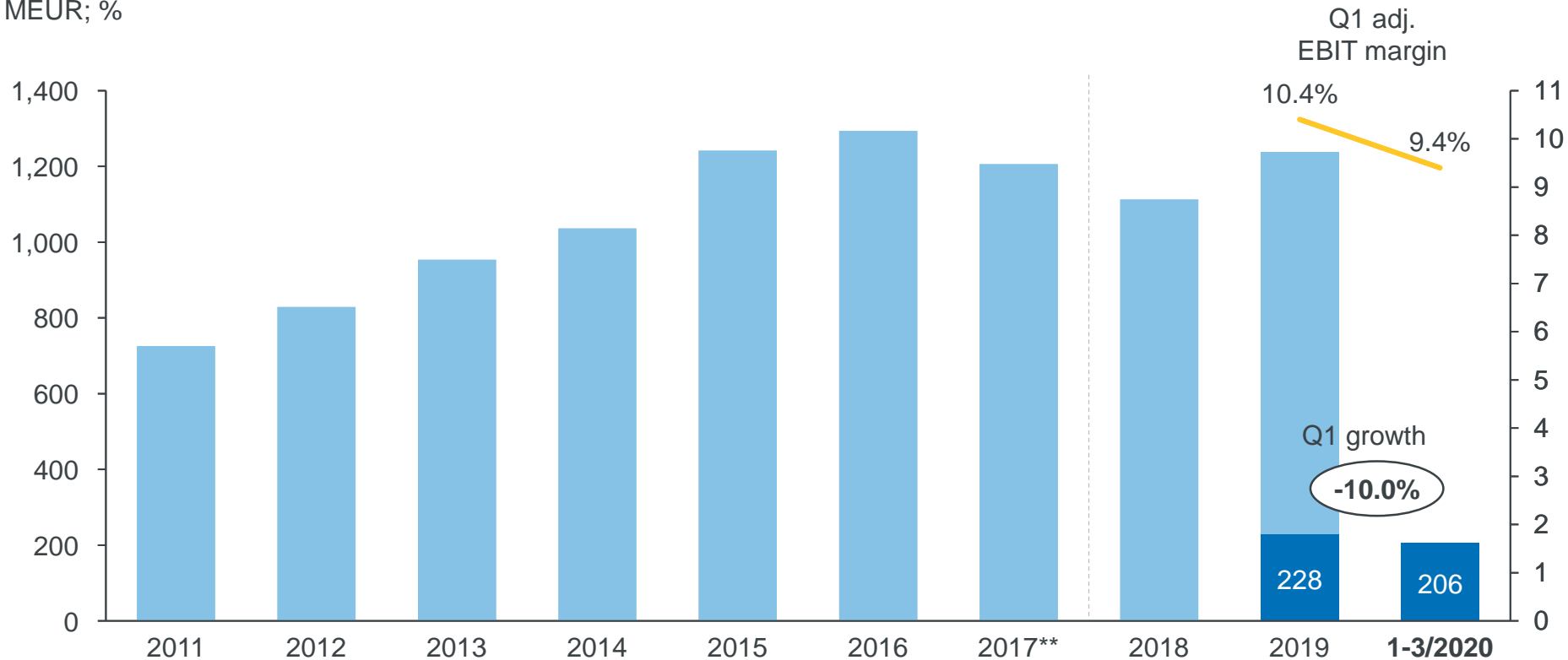
KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011-2016 are not restated and thus not fully comparable.

Adjusted EBIT

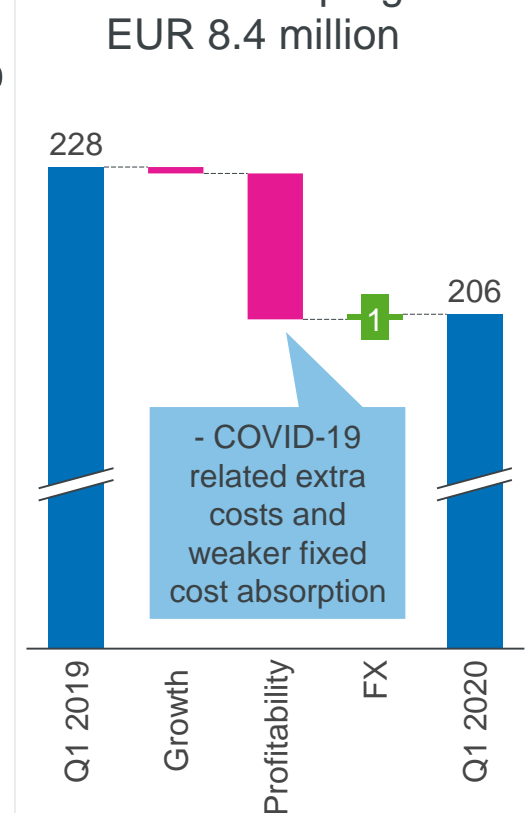
ADJUSTED EBIT MARGIN BURDENED BY COVID-19 RELATED ITEMS

Adjusted EBIT* and adjusted EBIT margin

MEUR; %



- In Q1, restructuring costs related to the Accelerate program: EUR 8.4 million



* Adjusted EBIT was introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program

** KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011-2016 are not restated and thus not fully comparable.

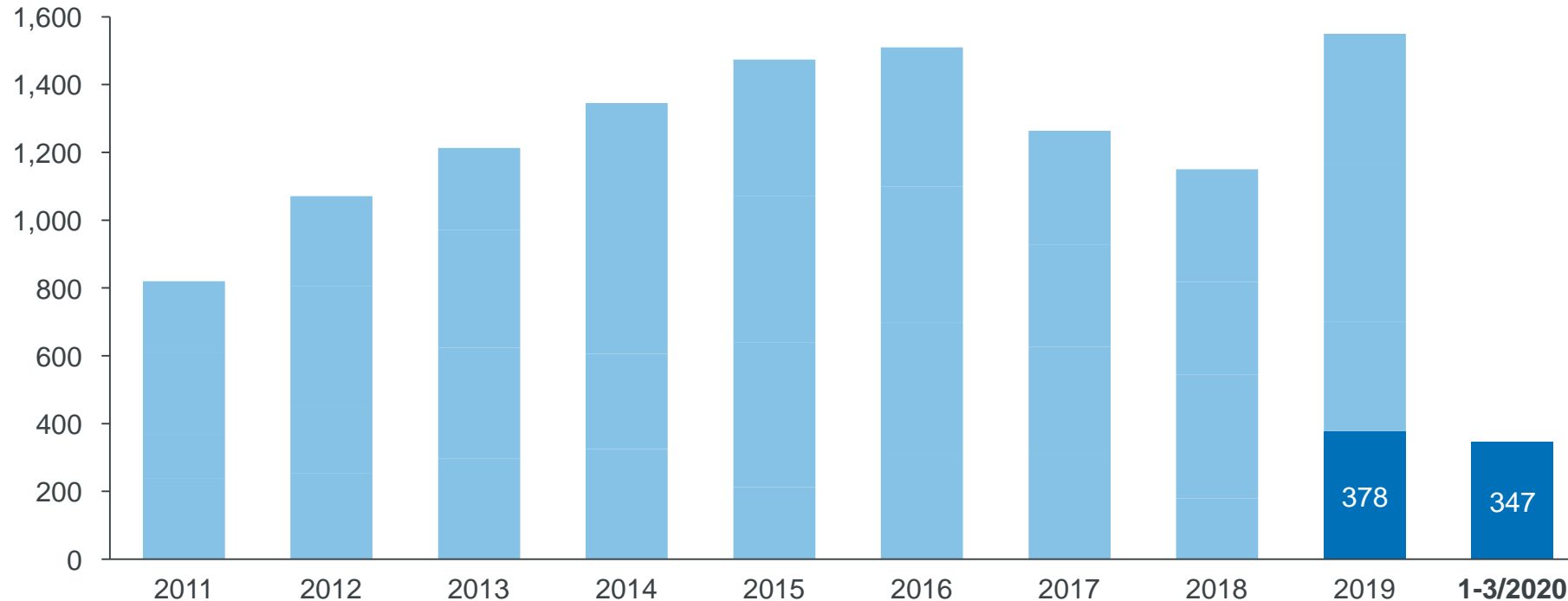
Cash flow

SOLID CASH FLOW IN Q1



Cash flow from operations*

MEUR



* Before financing items and taxes

KONE had adopted IFRS16 from January 1, 2019 onward which improved cash flow from operations as payments of lease liabilities were included in to cash flow from financing activities. The cash flows for comparative periods have not been restated.

- Net working capital contributed positively to the cash flow in 1-3/2020, driven by strong development in advances received and progress payments
- KONE's liquidity position is strong:
 - EUR 1 billion of net cash
 - EUR 1 billion of undrawn committed credit facilities

Market and business outlook for 2020



Market outlook for 2020

New equipment markets

- The new equipment market is expected to decline across regions as a result of the increased uncertainty related to the COVID-19 outbreak
- The Chinese market started to recover in March

Maintenance markets

- The maintenance markets are expected to be resilient, excluding the direct impacts of the lockdown measures

Modernization markets

- The fundamental growth drivers are intact but uncertainty in the market could delay decision-making in modernization projects



Business outlook for 2020 (unchanged)



- KONE estimates that in 2020, its sales will decline or be stable at best at comparable exchange rates as compared to 2019. The rate of decline in sales will depend on the duration and severity of the COVID-19 related government measures and the pace of recovery.
 - Stable sales would require a relatively brisk recovery in the second half of 2020 and sustained positive progress in KONE's largest market China.
 - KONE's sales are expected to decline by less than 5% in case the restrictive measures would impact KONE's business mainly in the first half of 2020 and there would be a gradual recovery in the second half.
 - Should the broad and strict government measures continue to impact KONE's operations well into the second half of 2020, KONE's sales are expected to decline by 5-10%.
- The adjusted EBIT margin is expected to decline somewhat or to be stable at best.

Supporting our performance

- ⑦ Solid order book and maintenance base
- ⑦ Improved margin of orders received
- ⑦ Accelerate savings (MEUR ~50) and further cost containment actions

Burdening our result

- ④ Impacts of COVID-19 outbreak
 - Weaker cost absorption
 - Safety and business continuity measures
- ④ Subcontracting cost increases
- ④ Investing in our capability to sell and deliver digital services and solutions

Summary

- Solid performance in demanding environment
- We are in a good position to capture future opportunities with our capable and committed teams, strong competitiveness and strong balance sheet

Dedicated to People Flow™

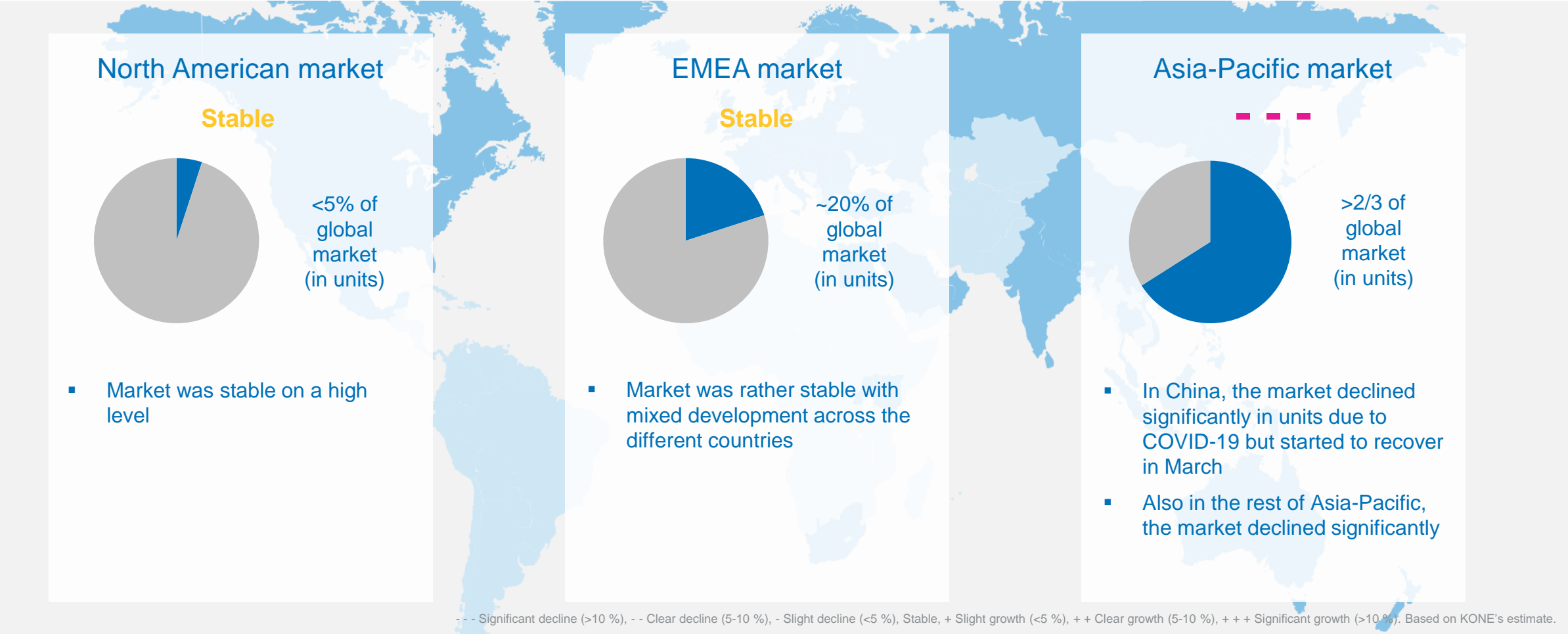


Appendix

New equipment market development in Q1/2020



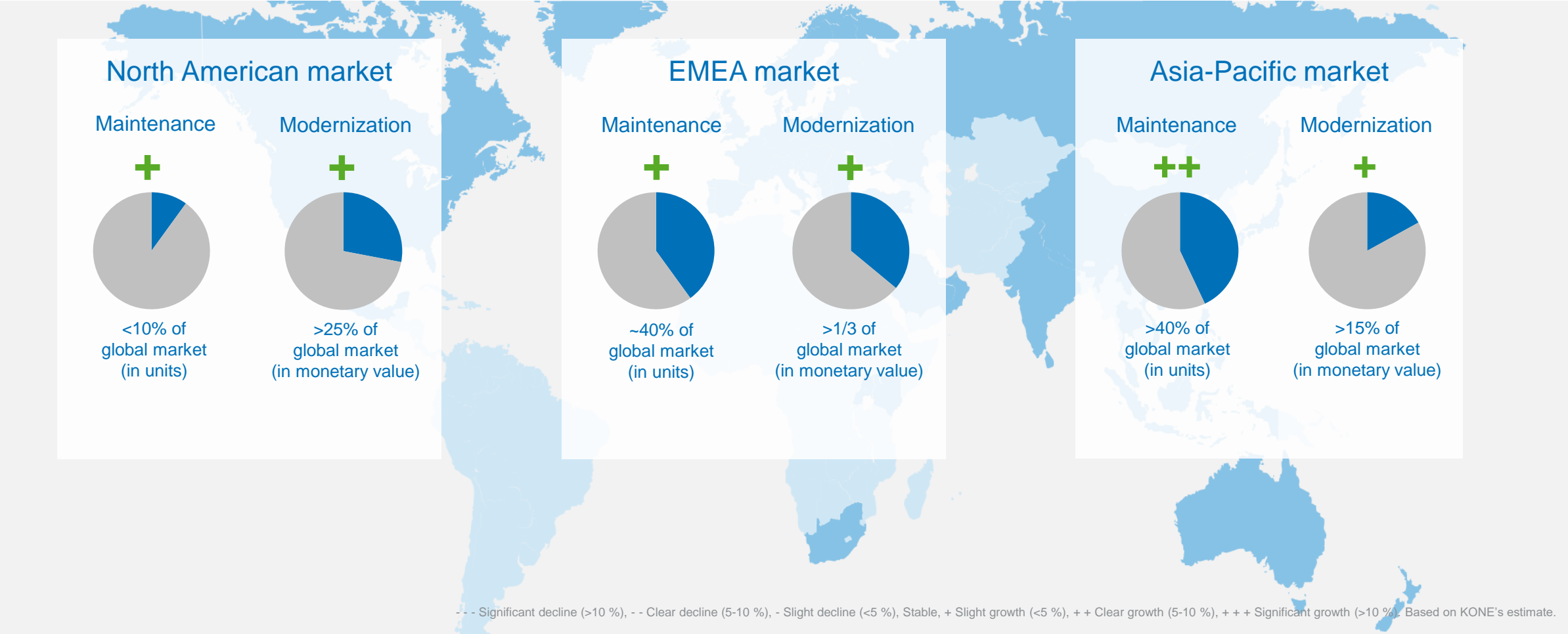
NEW EQUIPMENT MARKET DECLINED CLEARLY DUE TO THE COVID-19 OUTBREAK



Service market development in Q1/2020



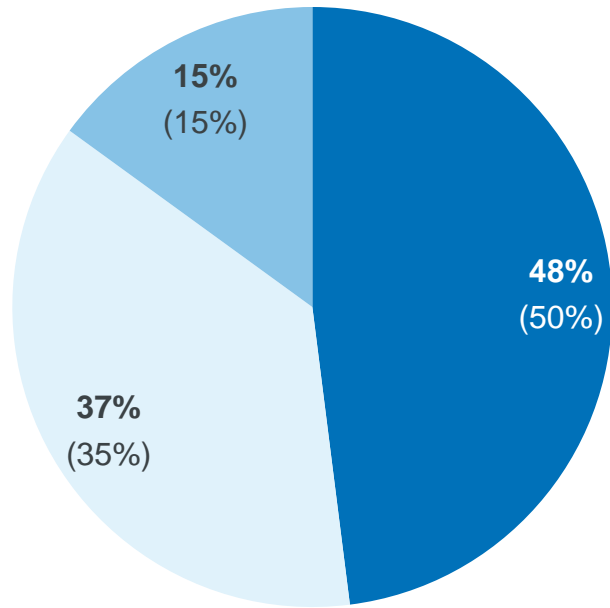
CONTINUED POSITIVE DEVELOPMENT BUT WITH INCREASED UNCERTAINTY



--- Significant decline (>10 %), -- Clear decline (5-10 %), - Slight decline (<5 %), Stable, + Slight growth (<5 %), ++ Clear growth (5-10 %), +++ Significant growth (>10 %). Based on KONE's estimate.

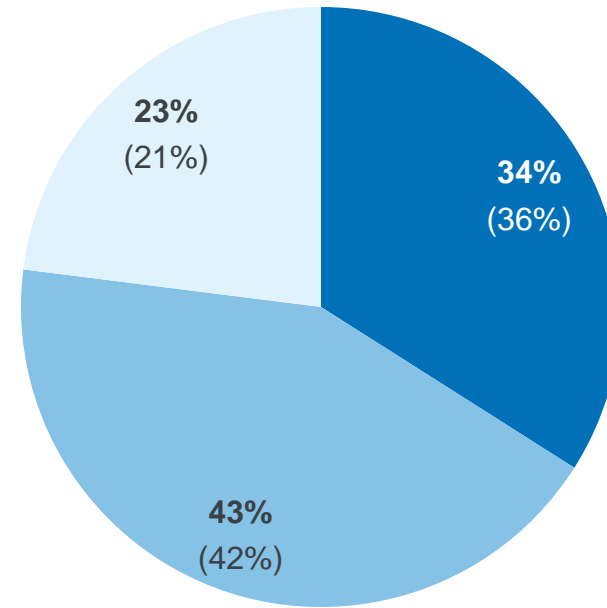
Q1/2020 Sales split

By business



- New equipment
- Maintenance
- Modernization

By area



- Asia-Pacific
- EMEA (Europe, Middle East and Africa)
- Americas

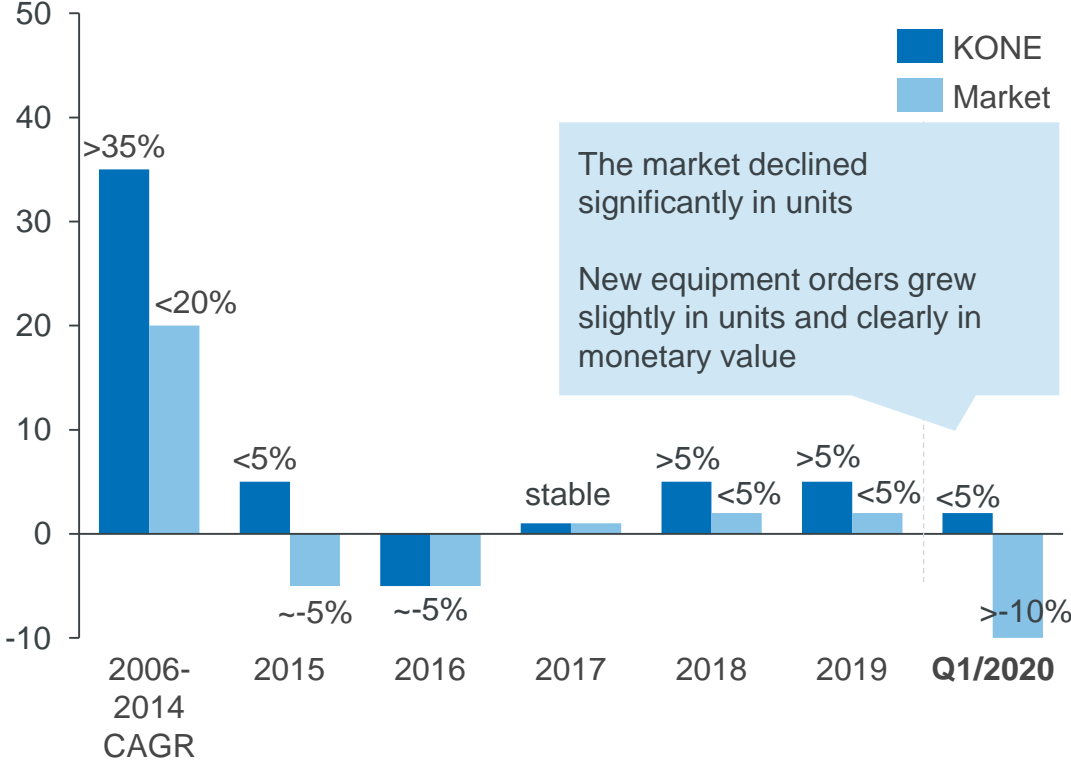
1-3/2019 figures in brackets. Figures in charts are rounded and at historical exchange rates.

KONE in China



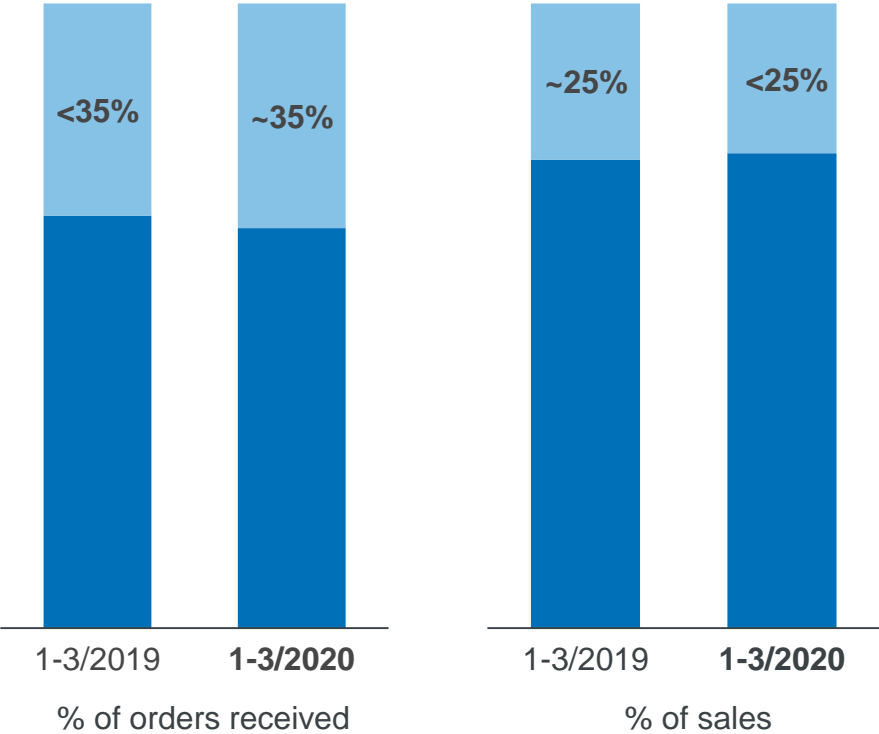
New equipment market

New equipment orders received in units vs. market development



China's share of KONE's orders received and sales

Monetary value

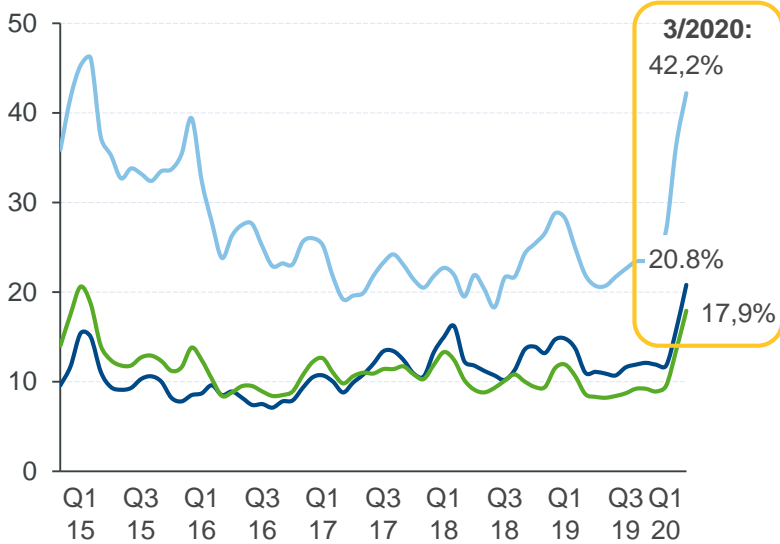


Chinese property market



Housing inventories

Newly built area for sale / monthly sales 3-m MVA

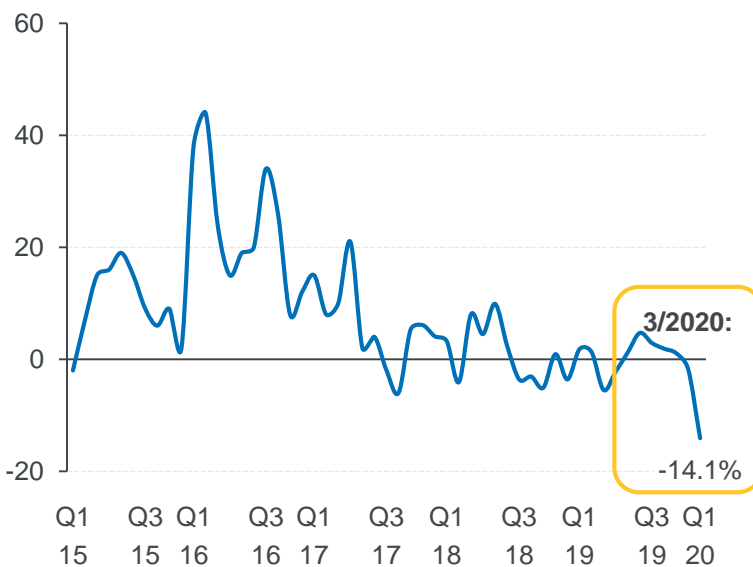


- Tier-1
- Tier-2
- sample of lower tier cities

Sources: China NBS, E-house, CREIS, KONE estimates

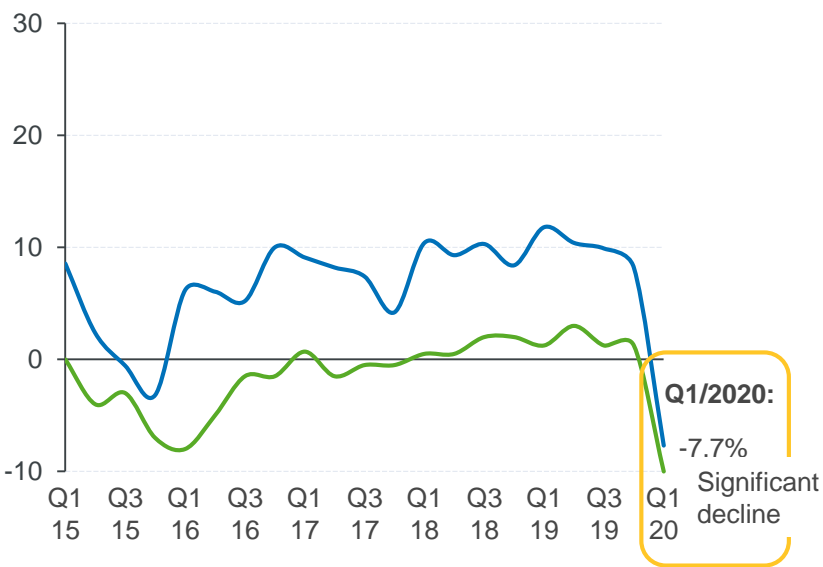
Housing sales

Sales area growth, change Y-o-Y



- Sales area growth

E&E market

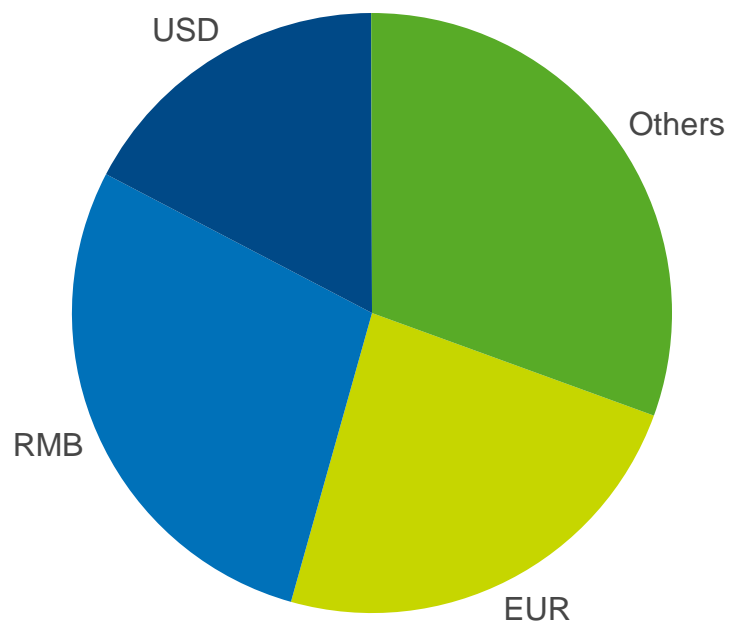


- REI Y-o-Y
- E&E market Y-o-Y in units

Currencies



Sales by currencies 1-12/2019



Currency impact

MEUR	Q1/2019	1-12/2019
Sales	9.5	153
EBIT	0.8	23
Orders received	9.1	134

Main currencies

	Q1/2019 average	2019 average	Mar 31, 2020 spot
EUR / RMB	7.7329	7.7353	7.7784
EUR / USD	1.1055	1.1214	1.0956
EUR / GBP	0.8580	0.8773	0.8864
EUR / AUD	1.6833	1.6090	1.7967

Balance sheet – assets employed



MEUR	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Assets employed			
Goodwill	1,370.7	1,355.8	1,366.5
Other intangible assets	229.4	259.7	248.2
Tangible assets	730.2	755.8	742.2
Investments	137.0	143.6	139.2
Net working capital	-964.3	-938.5	-856.0
Assets employed total	1,502.9	1,576.4	1,640.0
Financed by			
Equity	2,473.1	2,413.7	3,192.9
Net debt	-970.2	-837.3	-1,552.9
Equity and net debt total	1,502.9	1,576.4	1,640.0

The adoption of IFRS 16 increased the 2019 opening tangible assets and interest-bearing net debt by EUR 358 million

Net working capital



MEUR	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Net working capital			
Inventories	666.0	645.5	648.6
Advance payments received and deferred revenue	-1,774.3	-1,671.9	-1,753.8
Accounts receivable	2,192.8	2,057.6	2,232.3
Other non-interest-bearing assets	741.1	731.0	669.6
Other non-interest-bearing liabilities	-2,099.6	-1,954.5	-1,848.0
Provisions	-122.2	-137.9	-127.1
Accounts payable	-698.6	-725.8	-809.8
Net deferred tax assets / liabilities	130.5	117.5	132.1
Net working capital total	-964.3	-938.5	-856.0