



KONE CMD 2015

An attractive business model with a high return on capital

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September 25, 2015

# Agenda

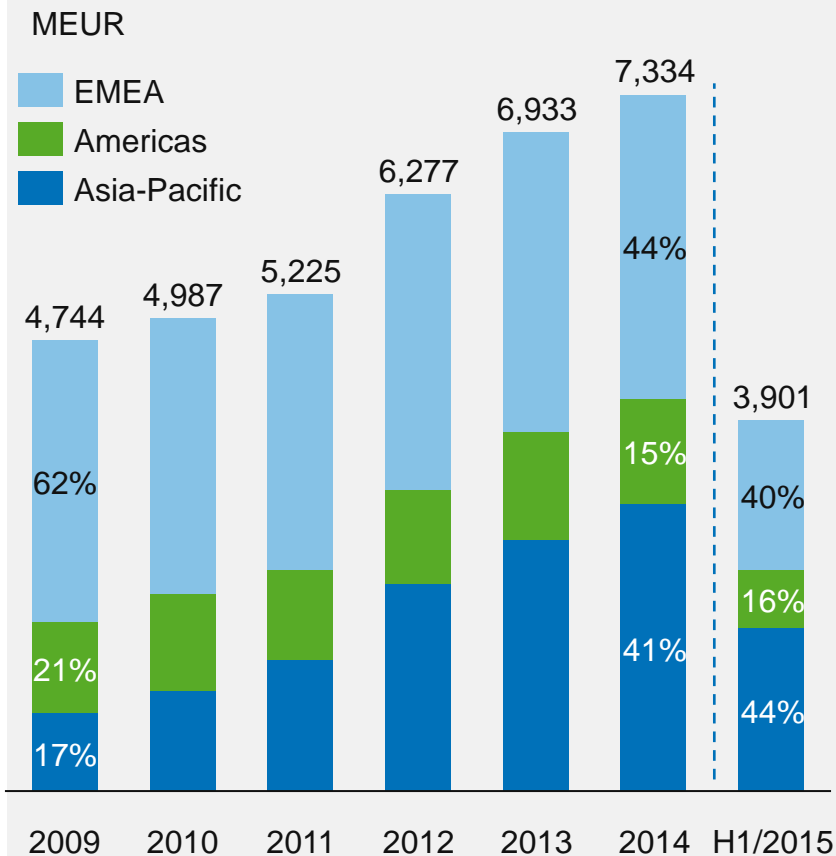


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- The background of the slide is a blurred photograph of a modern building's interior. It features a wide staircase with multiple escalators. People are seen walking on the stairs and in the foreground. The lighting is bright and modern, with recessed ceiling lights. A blue sign with a wheelchair symbol is visible on the right side of the image.
- Global position in a life cycle business
  - Strong order book combined with recurring revenues
  - Flexible cost structure
  - Good cash flow generation
  - High return on capital

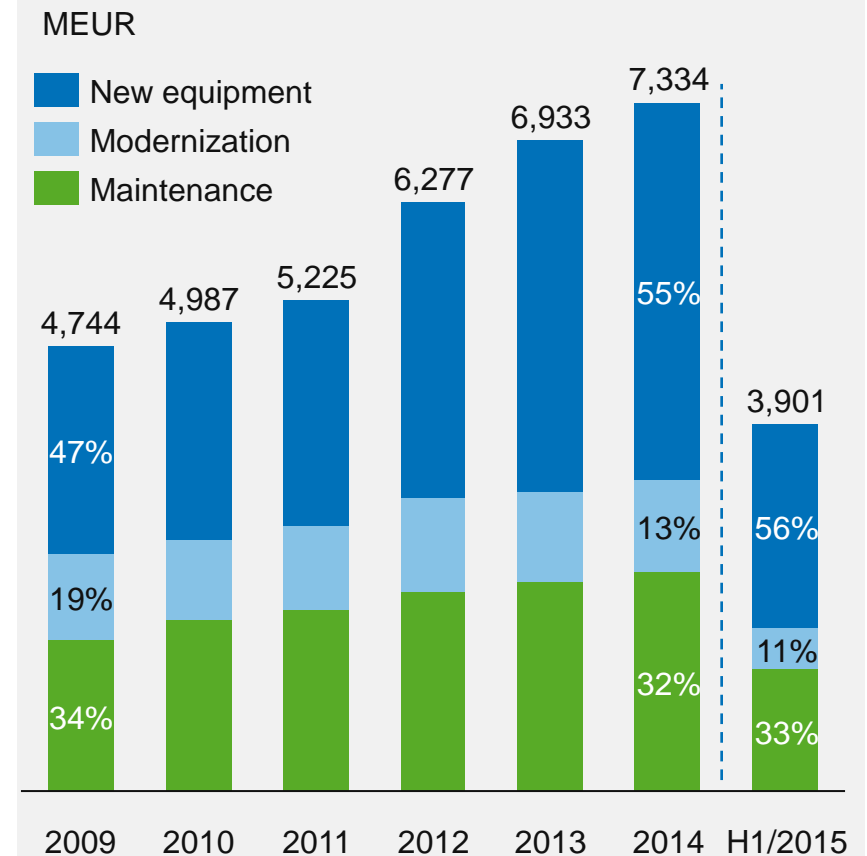
# We have strengthened our position globally and grown profitably



## KONE sales by area 2009-H1/2015



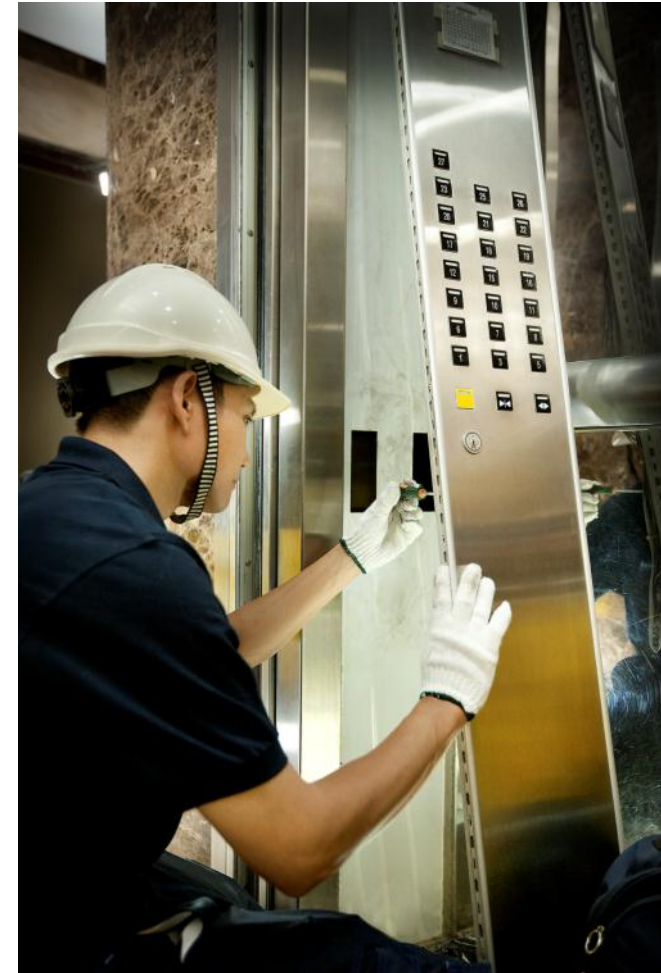
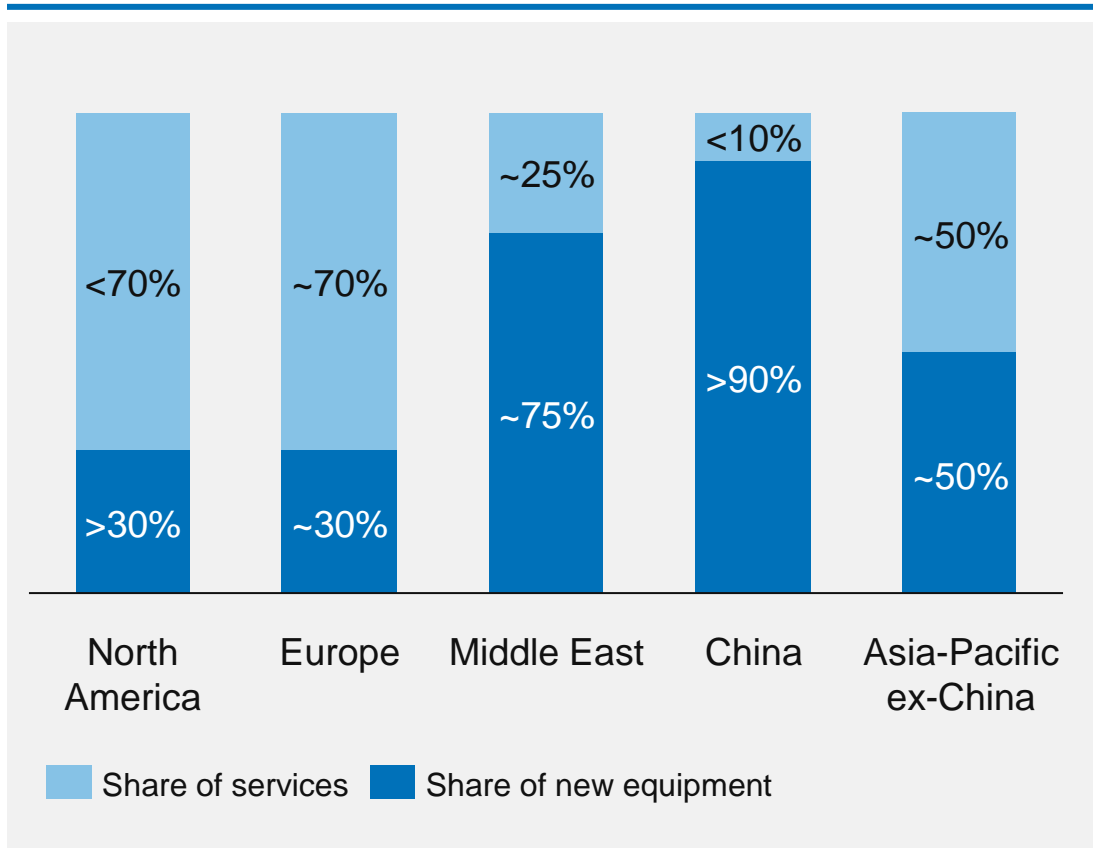
## KONE sales by business 2009-H1/2015



# Our regions are seeing different development phases and opportunities in the market



## SPLIT OF KONE'S NEW EQUIPMENT AND SERVICE SALES PER AREA



# Europe and North America: We focus on further improving our field productivity and delivery capability

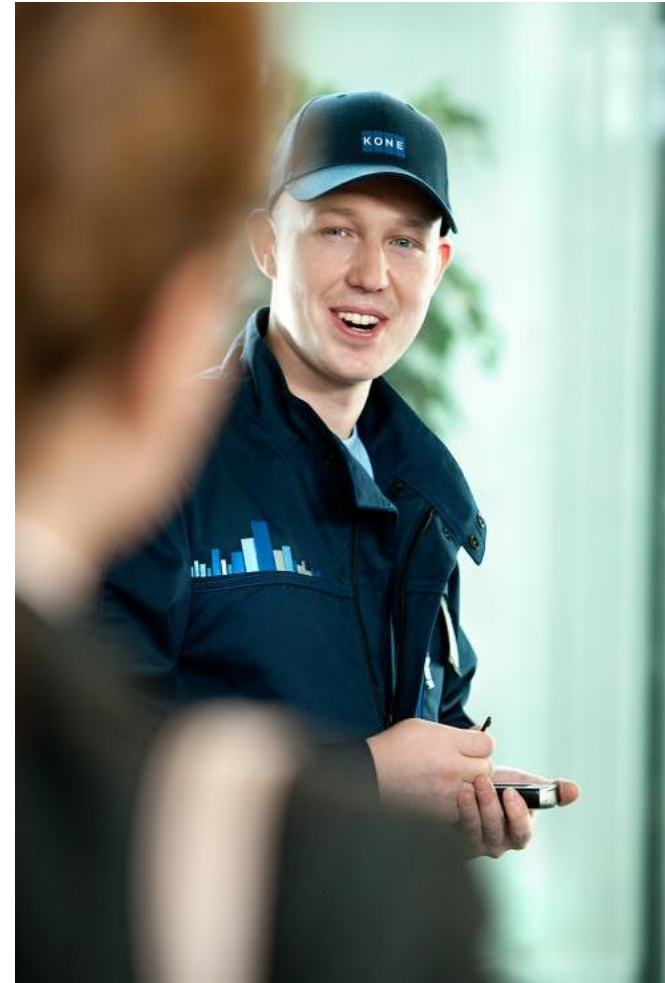


## New equipment and modernization

- Decrease cost with installation productivity
- Further improve sales management and product competitiveness
- Invest into the delivery capability of our strong order book in North America

## Maintenance

- Improve productivity of field operations with new technology
- Continue building pricing capabilities



# Asia-Pacific and the Middle East: We continue to invest in our delivery capabilities and processes



## China

## Rest of Asia-Pacific & Middle East

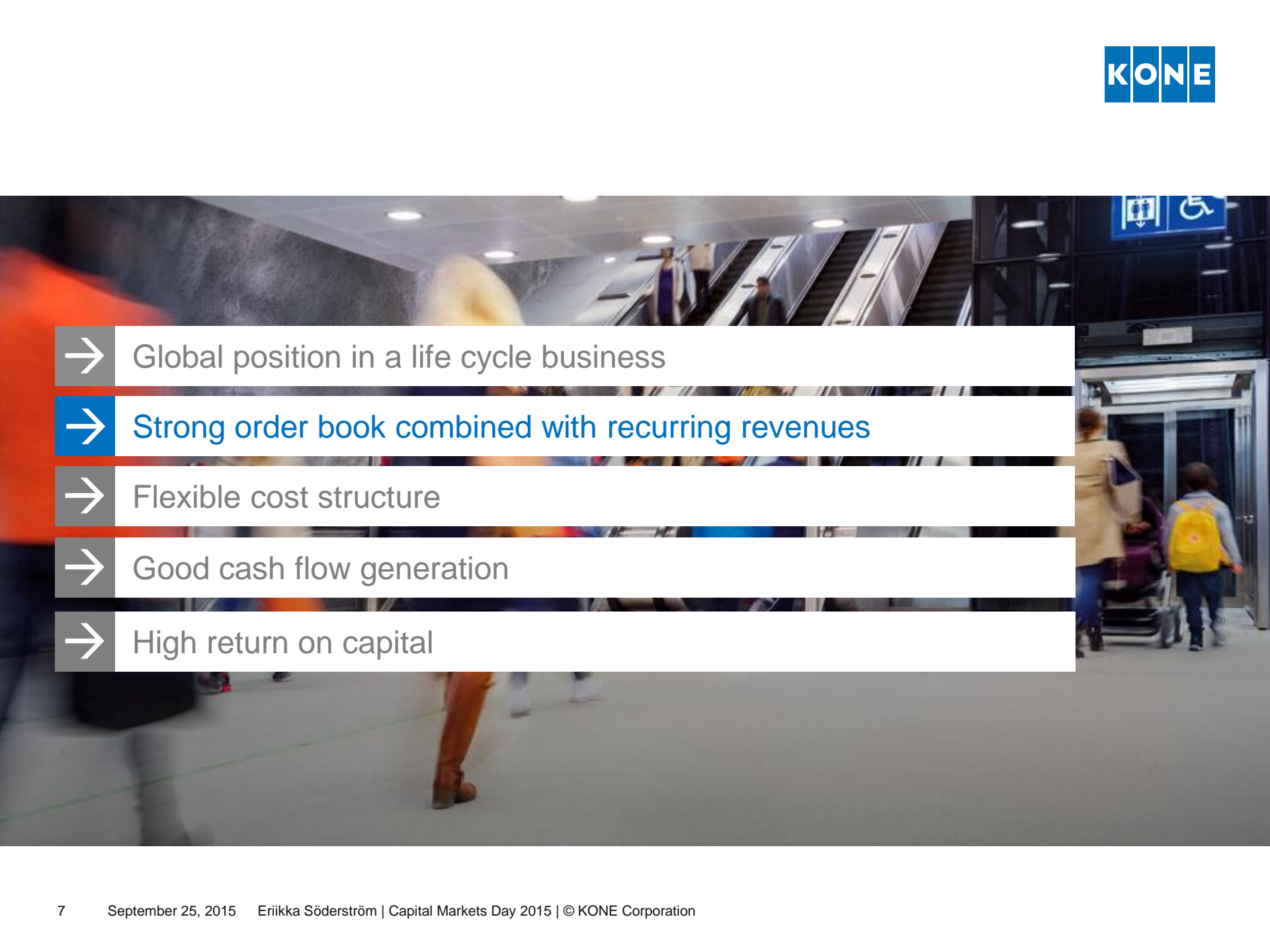
### New equipment

- Further improve product competitiveness and installation productivity

- Ensure high quality execution of strong order book

### Service

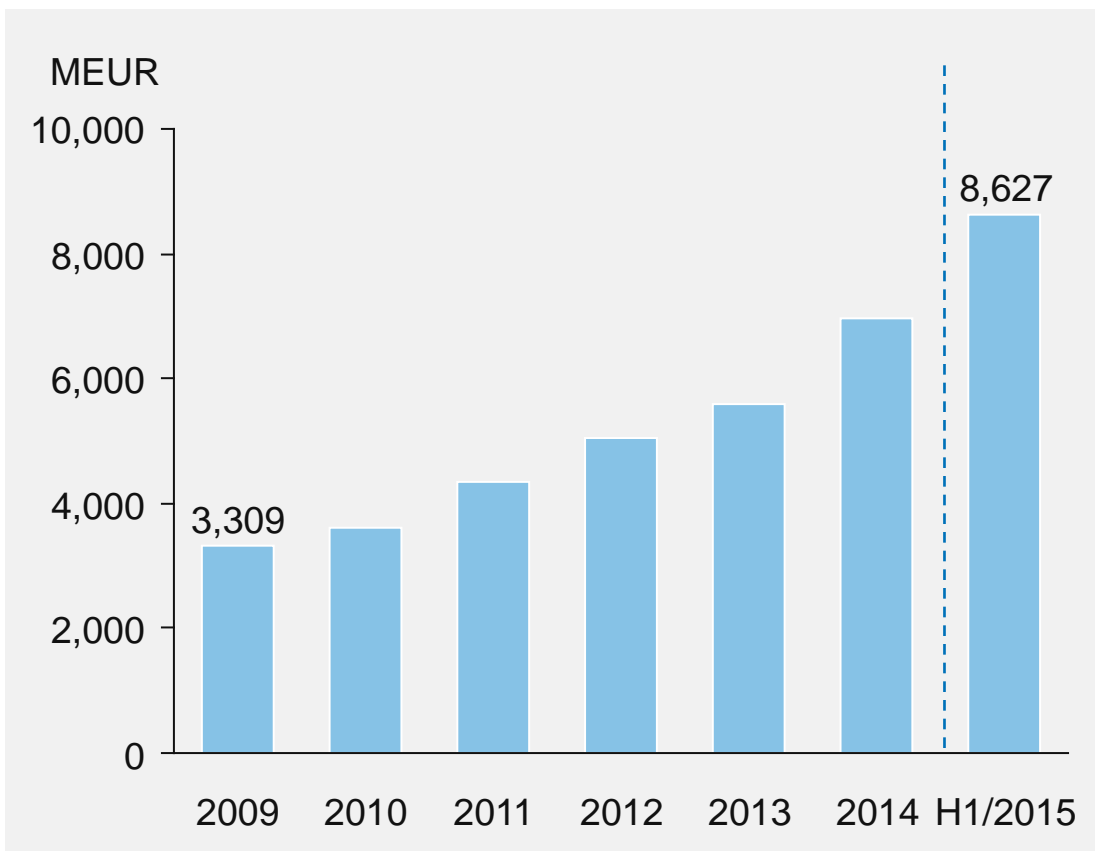
- Continue expanding our service footprint and capabilities
- Implement global best practices

- 
- Global position in a life cycle business
  - Strong order book combined with recurring revenues
  - Flexible cost structure
  - Good cash flow generation
  - High return on capital

# Our order book is at a record-high level following solid growth in orders received



## ORDER BOOK 2009-H1/2015



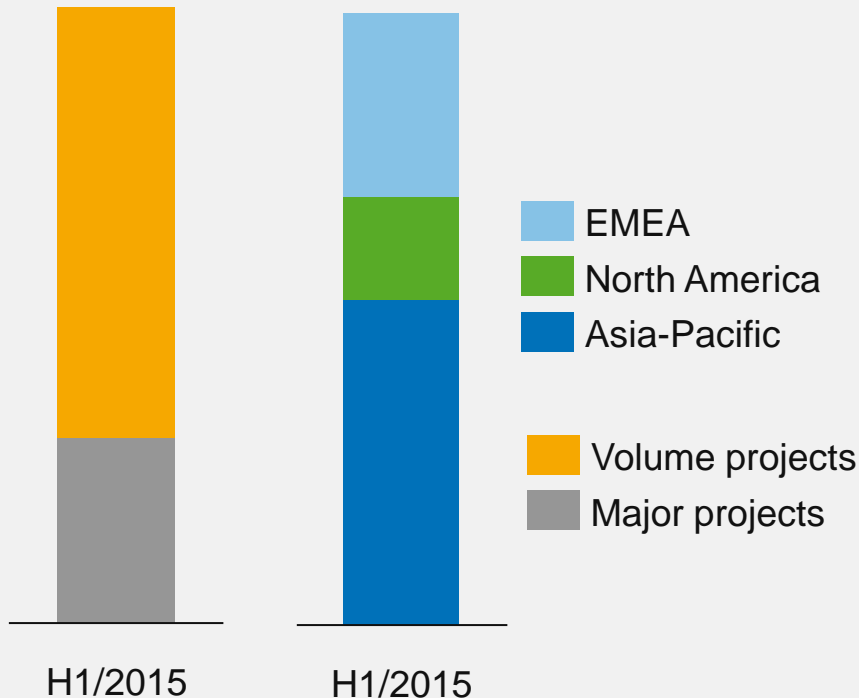
- The order book consists of new equipment and modernization orders received
- A strong order book gives us longer term visibility



# The share of major projects and North America within the order book has increased



## Indicative breakdown of KONE's order book



## Order book rotation (new equipment)

Estimated lag from new equipment order to completion

**Major projects**

**Globally**  
Up to 5 years

**Volume business**

**Europe**  
~1–1.5 years

**North America**  
~1.5–2 years

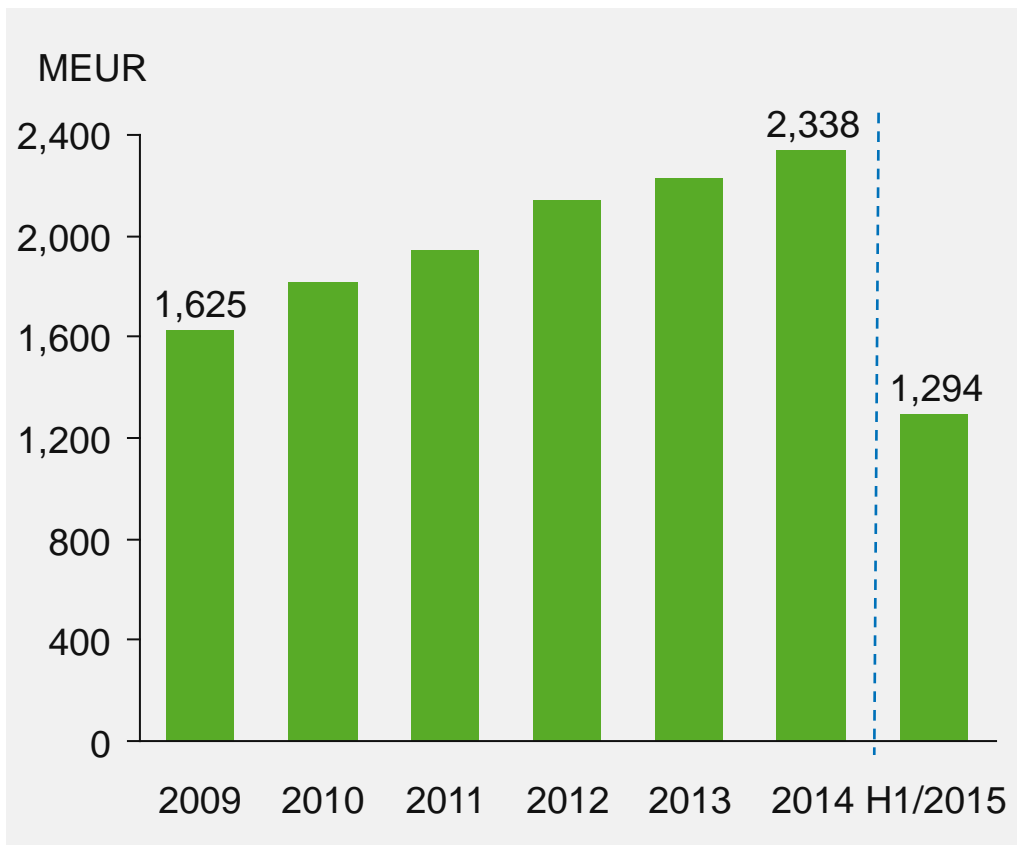
**Asia-Pacific ex China**  
~1.5–2.5 years

**China**  
< 1 year

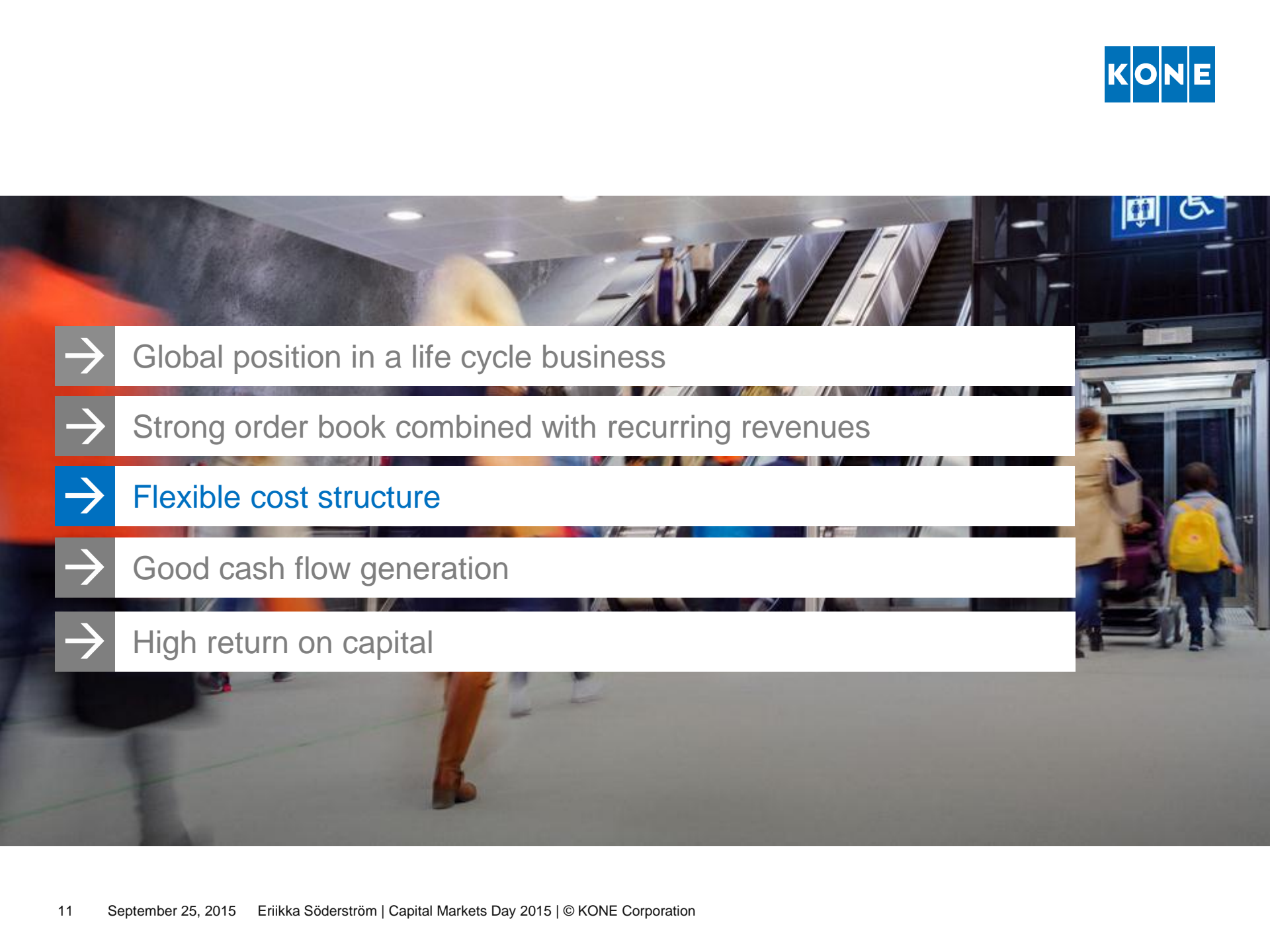
# Maintenance provides a solid foundation for the business with recurring revenues



## MAINTENANCE SALES 2009-H1/2015



- Retention rates for existing maintenance contracts 90-95% globally
- Growth in the business is scalable and requires little capital investment
- Maintenance revenues form a stable foundation for the business through economic cycles

- 
- Global position in a life cycle business
  - Strong order book combined with recurring revenues
  - **Flexible cost structure**
  - Good cash flow generation
  - High return on capital

# Our cost structure is flexible and scalable



## Sourcing and manufacturing

- High share of outsourcing to component suppliers

## Installation

- Subcontracting used in installation

## Service

- Expansion of footprint requires little investment

Flexible cost base,  
with a low share of  
fixed costs

# Pricing is a headwind in many markets; cost environment on a favorable trend



## There are both headwinds and tailwinds in the cost environment

### Pricing environment

#### New equipment

- Price competition continues intense in many markets

#### Services

- Modernization pricing environment improving in growing markets
- Regional variation in maintenance pricing

### Cost environment

#### Sourcing cost

- Favorable raw material price development in key component materials

#### Labor cost inflation

- In mature markets low single digit
- Higher but manageable in emerging markets, trend slowing

# We have several ways to address the challenges and opportunities in pricing and sourcing



## We are addressing the pressures and also looking for opportunities

### Pricing actions

- Strengthen sales management and further improve sales data analytics

### Sourcing actions

- Ensure competitive prices from economies of scale
- Ensure benefits from favorable raw material prices

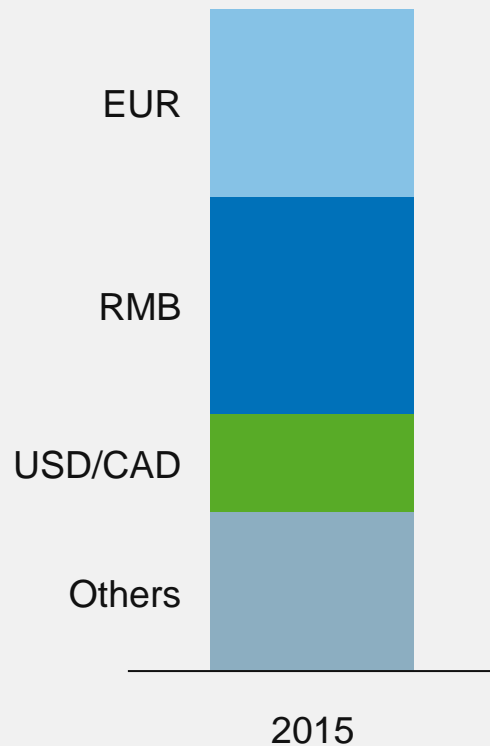
### Product cost development actions

- Numerous ways to improve product cost competitiveness:
  - Optimized use of components
  - Simplicity in manufacturing, easier installation process

# Our foreign exchange exposure is mostly limited to translation risk



## Sales by currency H1/2015



## Foreign exchange impacts

### Transactional

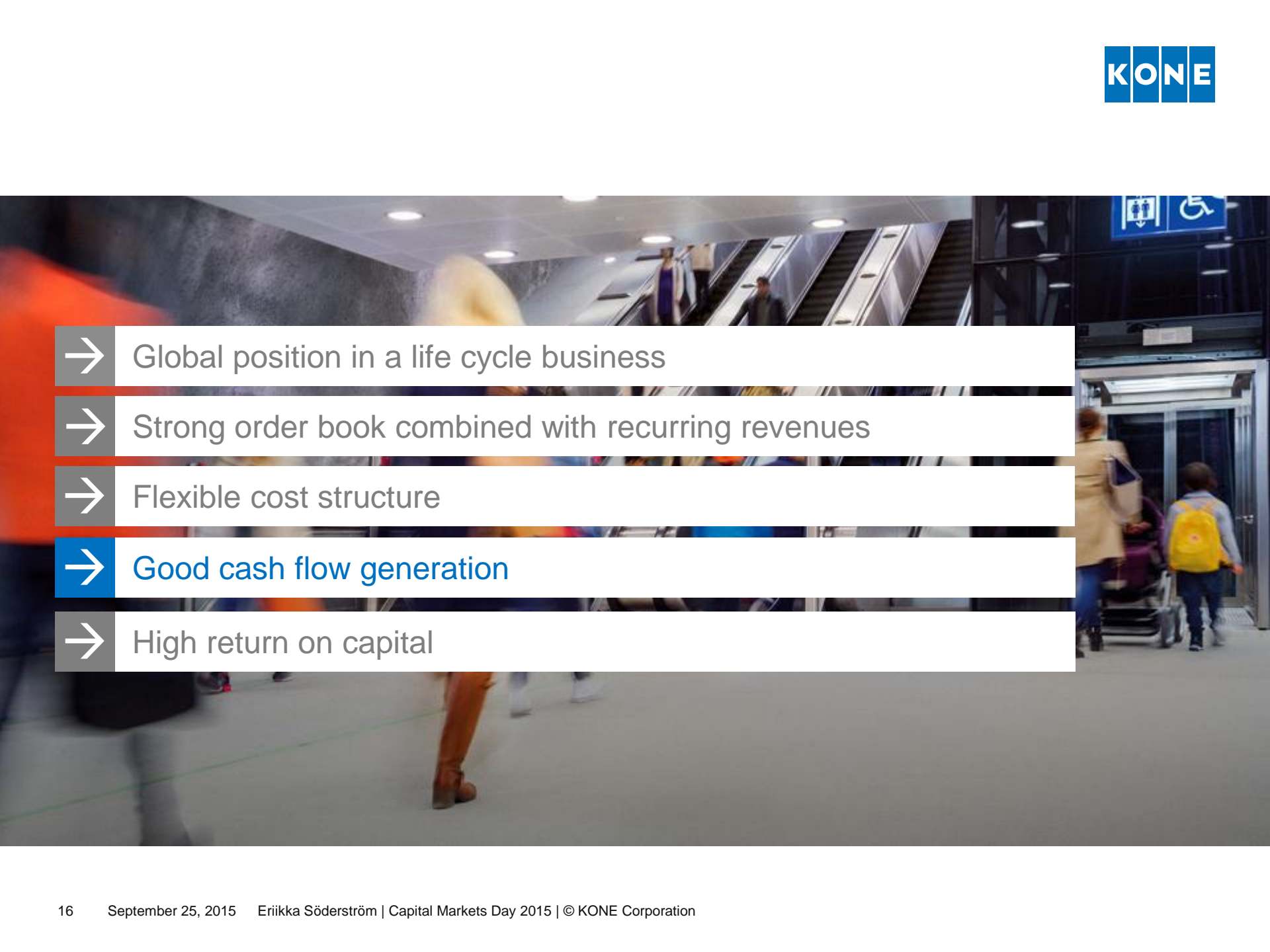
- Balance between sales and costs provides good natural hedging

### Translational

- Changes in translation rates have an impact on sales and EBIT
- Full-year EBIT guidance includes a positive impact of 100-120 MEUR, assuming that translation exchange rates would remain at the average level of January-June 2015

### Economic

- No major implications on competitiveness

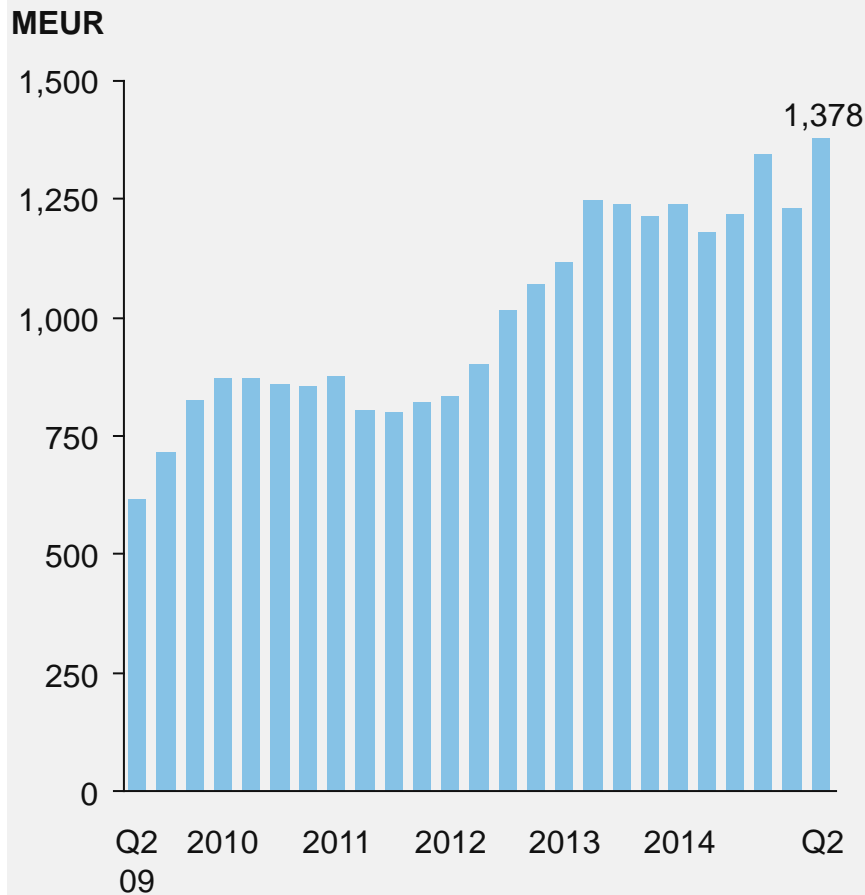
- 
- Global position in a life cycle business
  - Strong order book combined with recurring revenues
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  - High return on capital



# Our working capital has remained at a very good level, supporting the strong cash flow

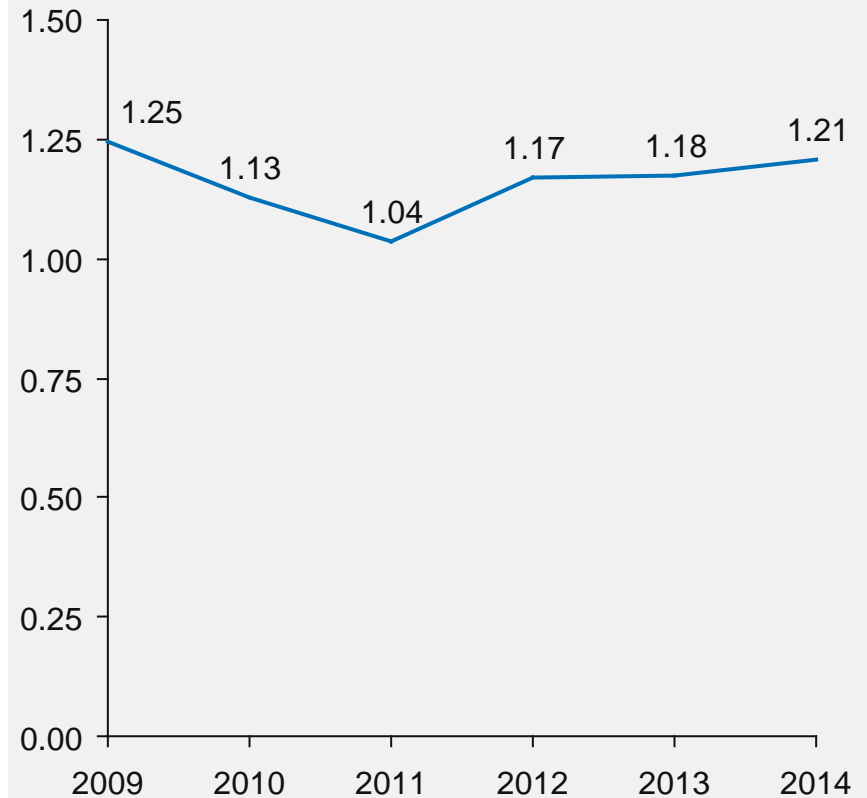


## 12M rolling quarterly cash flow



12m rolling quarterly cash flow from operations (before financing items and taxes)

## Cash conversion rate 2009-2014

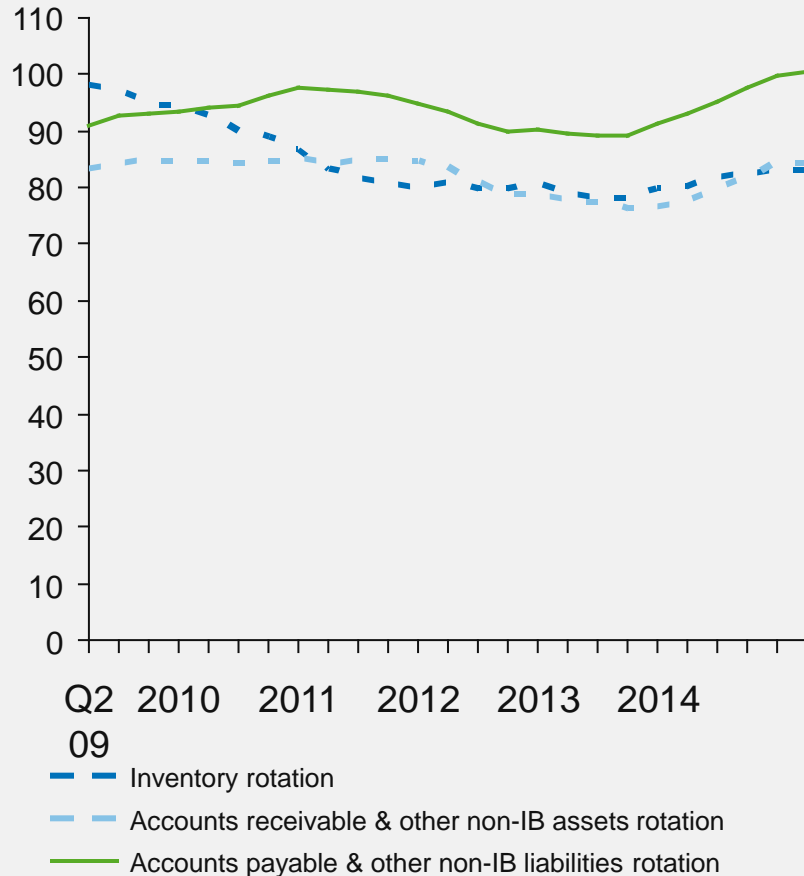


Note: Cash conversion rate calculated as cash flow from operations before financing items and taxes / EBITDA

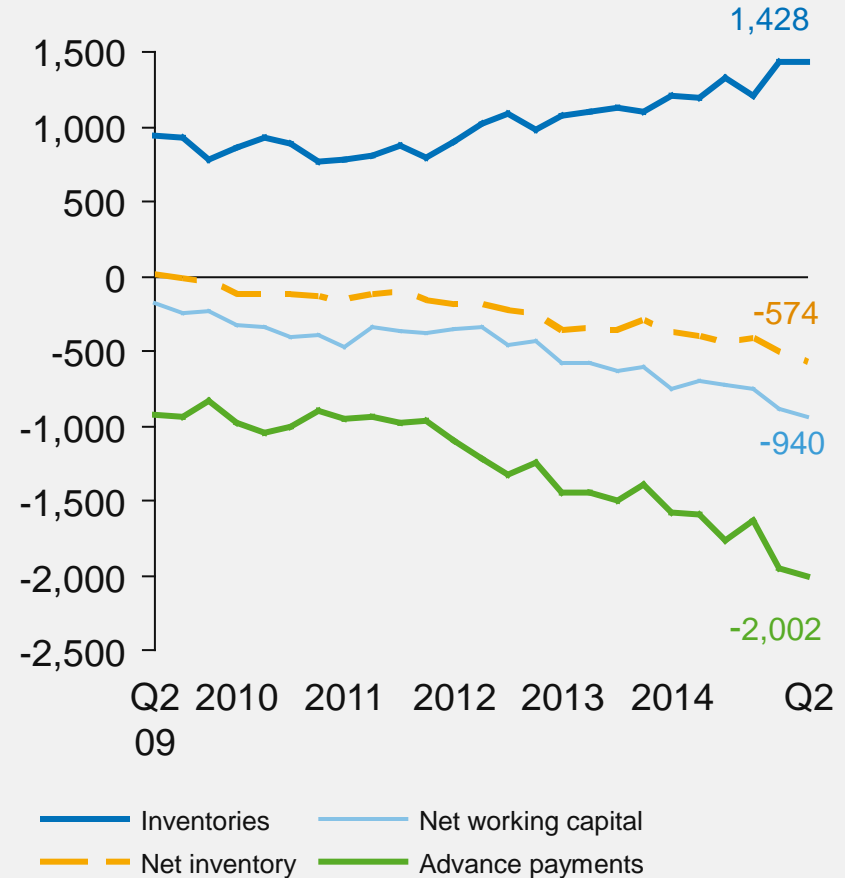
# We are focused on maintaining a good level of working capital



## WC rotation relative to sales



## Negative working capital



Figures include new equipment and modernization

# Our capital expenditure needs remain low



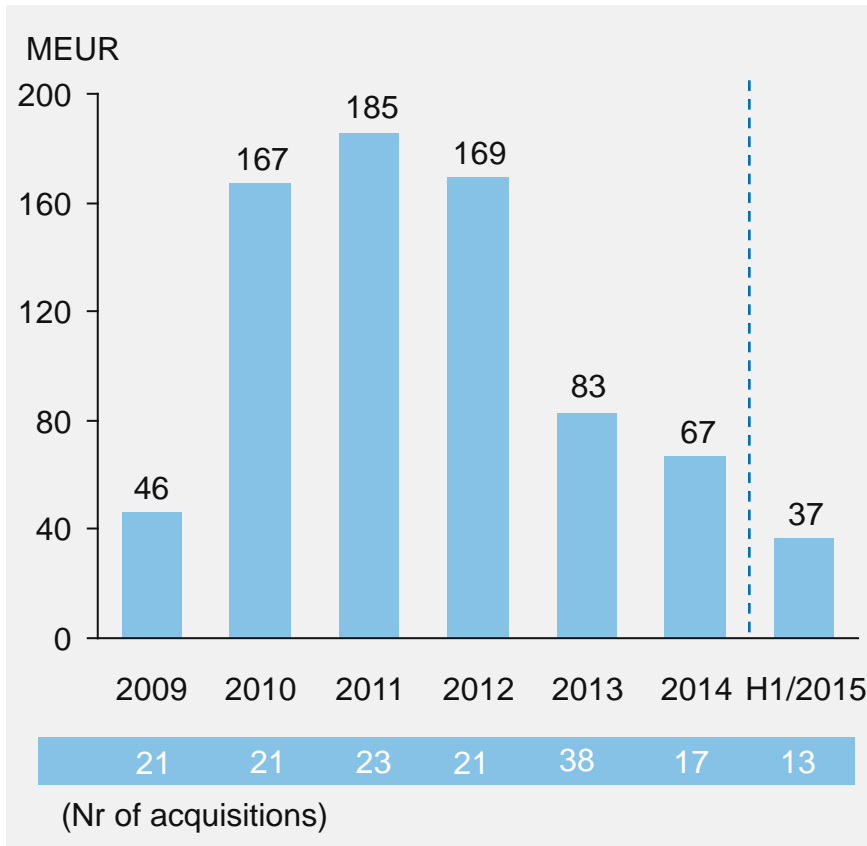
## CAPITAL EXPENDITURE AND DEPRECIATION EXCLUDING ACQUISITIONS



# Activity continues with acquisitions and we aim to further accelerate this



## ACQUISITION SPEND 2009-H1/2015

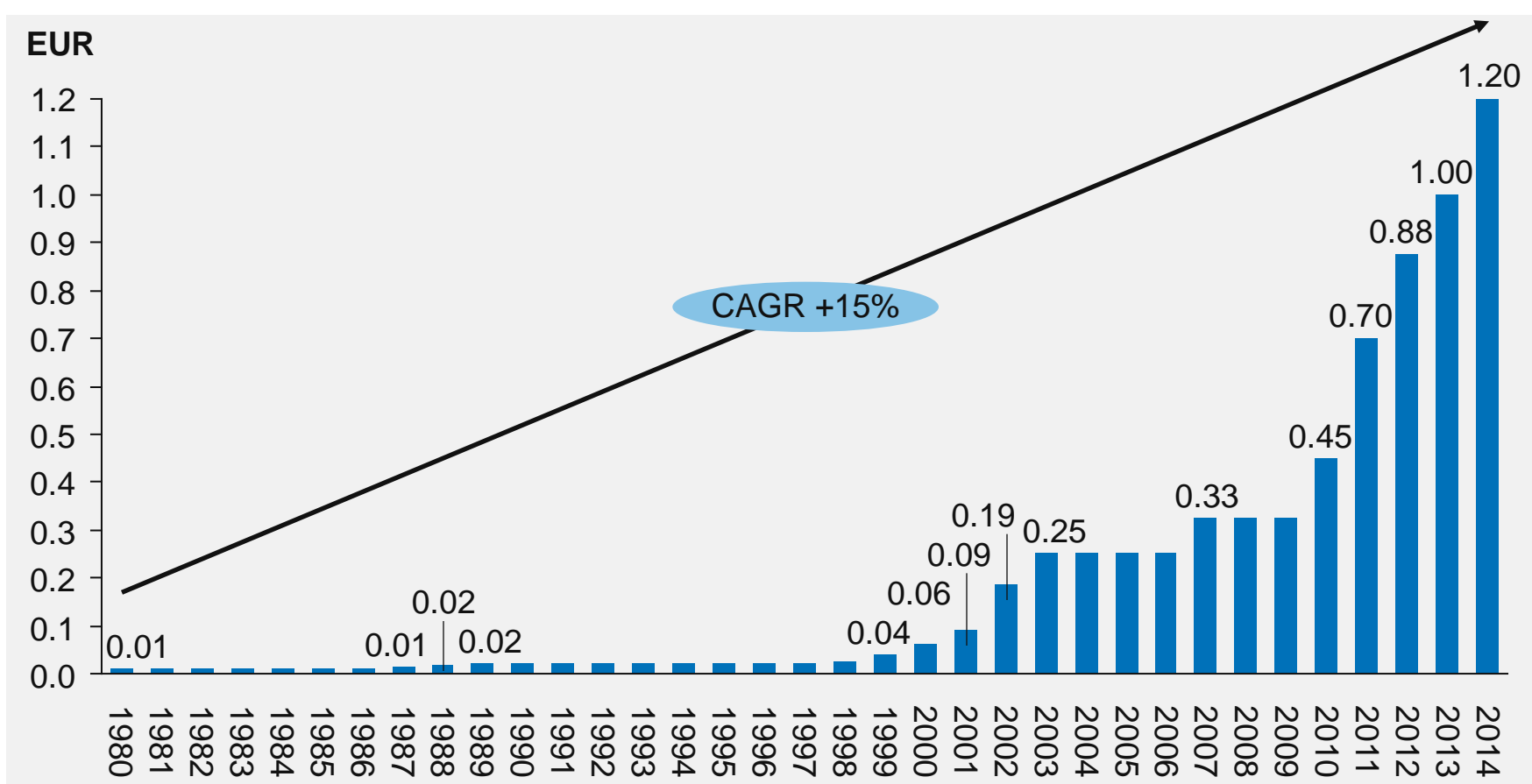


- We mainly acquire small local maintenance companies to strengthen the density of our maintenance portfolio
- In addition, we have acquired our distributors from time to time to expand to new markets
- We make acquisitions within our business scope of providing the best People Flow™ experience

# KONE's financial performance has enabled increasing dividend payments to shareholders



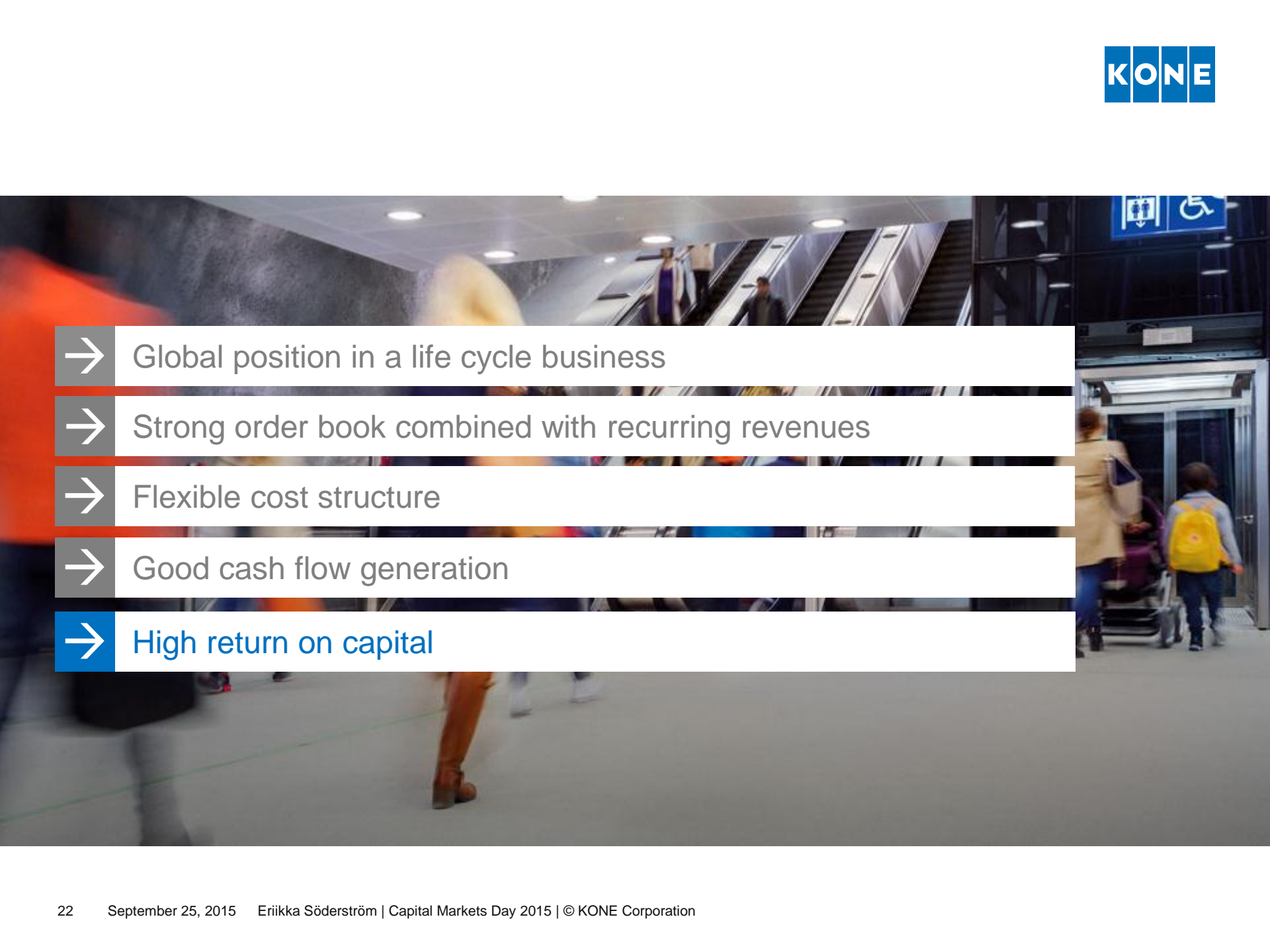
## SPLIT-ADJUSTED DIVIDEND PER CLASS B SHARE, 1980-2014



Note: Includes the basic dividend. Adjusted for share splits in 1999 (1:3), 2002 (1:3), 2005 (1:2), 2008 (1:2) and 2013 (1:2).

1 EUR= 5.9 FIM; not adjusted to constant exchange rate.

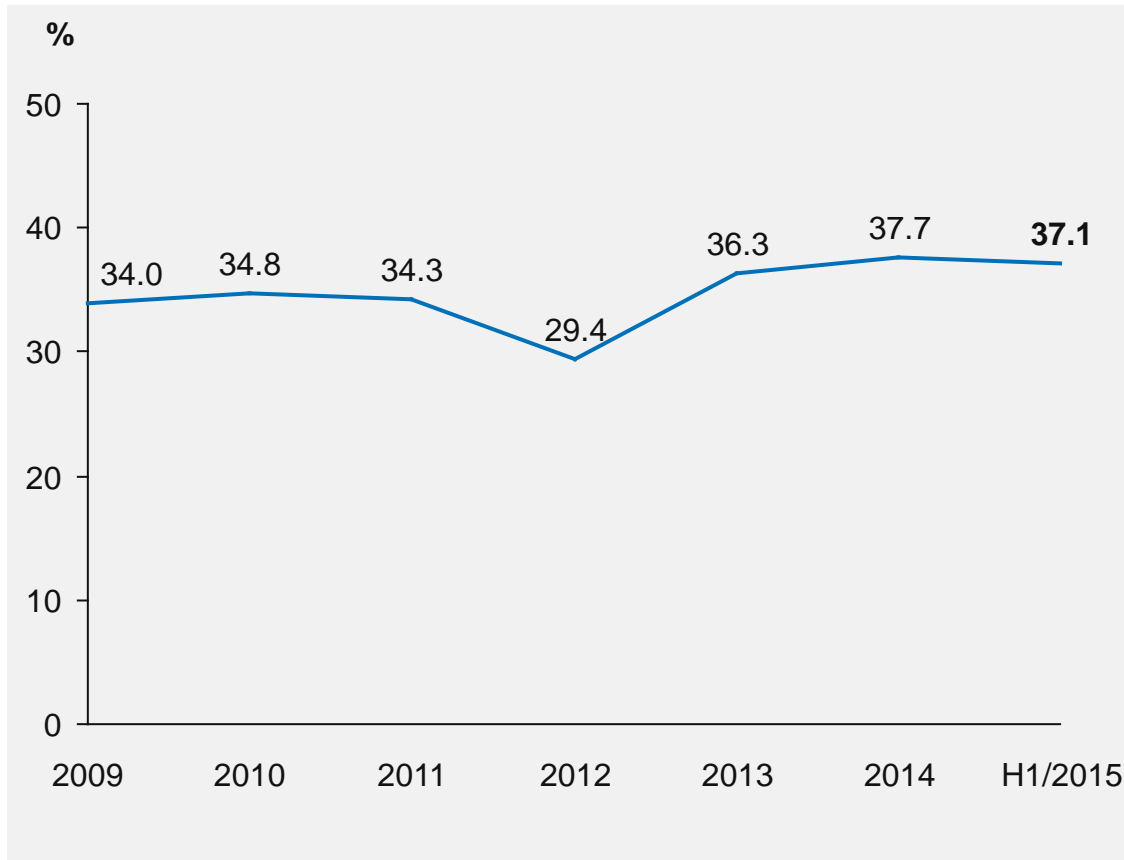
Additional extraordinary dividends: for 2009, a double dividend was paid; for 2011, an extraordinary dividend of EUR 0.75 was paid and for 2012 an extraordinary dividend of EUR 0.65 was paid.

- 
- Global position in a life cycle business
  - Strong order book combined with recurring revenues
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# Our return on capital is very high



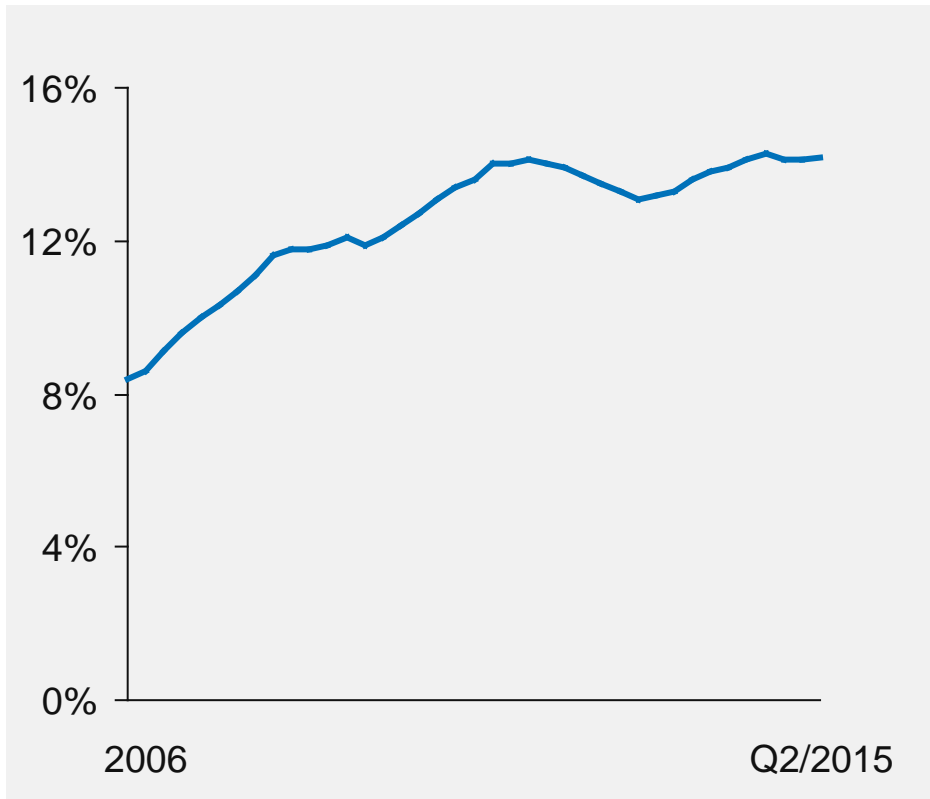
## RETURN ON CAPITAL EMPLOYED 2009-H1/2015



We have grown profitably over the past 10 years and improved our EBIT margin at the same time



## 12M QUARTERLY ROLLING EBIT MARGIN, Q4/2005-Q2/2015



- Improvement in profitability even with the share of new equipment increasing
- Operational efficiency
- Scale and rationalization in sourcing
- Fixed cost leverage

Note: Excluding one-time items.  
For 2012, intangible asset amortizations burden the margin.



# Our long term targets remain intact



## Growth

Faster than market

## Profitability

EBIT margin of 16%



## Cash flow

Improved working capital rotation

# We maintain the 16% long-term margin target

## WE HAVE FOUR KEY FOCUS AREAS GOING FORWARD



### Growth

- Accelerating service business growth
- Faster than market growth in new equipment business
- Smart growth investments

### Quality

- Quality of field operations
- New product quality

### Productivity

- Maintenance
- Installation
- Fixed cost management and leverage

### Pricing

- Granular market understanding
- Right balance between growth and profitability
- Processes and tools

**Global position in a lifecycle business**

**Strong order book combined with  
recurring revenues**

**Flexible cost structure**

**Good cash flow generation**

**High return on capital**





*Dedicated to People Flow™*

