KONE Q1 2020 Interim Report for January-March 2020

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Sanna Kaje: Welcome to KONE's Q1 2020 Results call. My name is Sanna Kaje, and I'm the head of KONE's investor relations. We're doing today's call a bit differently this time due to our COVID-19 related safety policies. It's an audio cast where our President and CEO, Henrik Ehrnrooth, and CFO, Ilkka Hara, will be participating the call from separate locations, so apologies beforehand if the quality of the call is not perfect today.

I'll now hand over to Henrik to start with the highlights of the quarter.

Henrik Ehrnrooth: Thank you, Sanna, and also a warm welcome to our First Quarter 2020 Results Call. It's been clearly a very eventful quarter, to say the least. When we had our full year results call back in January, we could, of course, already see the first impacts of COVID-19, but it's also very clear that, at that point, I don't think anyone could have imagined the scale, impact and breadth of this pandemic and crisis that we're going through.

But I'm very happy to share with you all today is that KONE has weathered the storm rather well. I'm actually quite proud of our results in the first quarter of 2020. But let me as usual start with some highlights, look at the financial highlights. Then I'll talk a little bit more about what COVID-19 means for KONE, how we are working in the situation. Then I'll talk a little bit also about topics from last year. As you know that in connection with first quarter results, we talk more in detail about our development or our market share last year as well as development of our sustainability, so I'll dive a little bit deeper into those. Then I'll talk about the external market environment, how we see that. I'll then had over to Ilkka for our Financial Review, and then wrap up with the outlook.

We'll start with the highlights for the first quarter. Our sales and orders received were very resilient in a very exceptional environment, but it's also clear that our profitability was burdened mainly by COVID-19 related items.

On the other hand, our supply chain was very robust and remained very reliable and strong despite restrictions and everything we've seen in the market. And also on a very positive note, we launched our DX Class elevators late last year in Europe, and we have now rolled them out in most European countries.

And I'm very happy to share with you that the progress has been strong. A very positive response from our customers, given the flexibility it gives them over the lifetime, given the opportunities that the built-in connectivity gives them, as well as the new functional materials, including anti-microbial materials, as well as the new design tools and project management tools that it comes with. So, very strong start, and we can see that we can charge a premium for this class and this family of elevators, so a great start here, which I'm very happy about.

So, let's go first into our key figures of Q1. As I mentioned, orders received and sales very resilient. Orders at €2.1 billion, growth of 0.3% in comparable currencies; a great achievement in this environment. Very solid order book at €8.4 billion, slight growth from last year.

Our sales in reported currencies more or less exactly at last year's level, and basically flat year-over-year. Operating income at €197 million compared to €215 million the year before, or the adjusted EBIT €205.6 million, down 10% year-over-year and margin decline 1 percentage points.

What was also a very strong in the first quarter was our cash flow at €347 million. We all know that cash flow is critical in an environment like this and maintaining a very healthy balance sheet, and that's something we have.

Our earnings per share down 9.4%, to 29% per share. At this point, I'd like to, again, extend a huge thanks to KONE's people. Overall, my view is that this was a strong achievement in a very exceptional circumstance. And I must say that I could not be more proud of the KONE team of their performance for the lengths they have gone to resolve some of the most complex problems through phenomenal collaboration, both internally with customers and with partners.

Our service technicians have ensured that societies can keep function in a safe way that has been fantastic. Our installation technicians work in a safe way on sites. The supply chain has remained resilient, fantastic achievements there, and our office-based people have very quickly learned how to work in a new environment. And a special call out goes to our sales people how quickly they've been able to go into a new mode of working and kept up a very high activity level with the customers. So, overall, I think there's been phenomenal performance by our team, and as I said, I could not be more proud of them.

So, let's start with how COVID-19 impacting KONE. Our New Equipment and Modernization business, we've seen that is been impacted by the fact that the number of construction sites and buildings have been closed as a result of lockdowns. That is clearly impacting our ability to deliver to our customers.

However, our supply chain has remained robust throughout this crisis with minimal disruptions to customers, and this has been, again, a lot of phenomenal performances to enable that. But we do expect that the demand for our solutions will be impacted by the uncertainty that we're going through.

Our Maintenance business, as all of you know, is by nature much more resilient through cycles[?]. And in most parts of the world where we operate, elevator, escalator maintenance has been deemed an essential service, and therefore, it's been allowed with small limitations. Actually, I think in all countries we can do at least callout, but in most countries we can continue even with preventive maintenance activities despite the situation.

However, there are some customer sites, that are closed and in some places restrictions are more severe, and therefore, some of the discretionary parts of maintenance are being impacted, like repairs. If you look at our exposure to various customer segments, we can see that by far, the largest customer segment for us are residential customers, and there the market is quite resilient and robust. It's clear people have to stay at home, so that market remains active. Also infrastructure, medical have clearly been robust and very active.

Where we're seeing the biggest impacts is, clearly it goes without saying, hotels, leisure and retail, but it's only somewhere over 10%, less than 15% of our total exposure. And office is a bit over 15%, and there, of course, has been a mixed impact. So, we can see that the majority of our business are in segments where impacts are smaller.

Our supply chain – I mentioned that a couple of times – all of our supply operations, our facilities and the suppliers to them are fully operational except for our facility in India, where whole of India is in a full lockdown at least until May 3rd. So, there's, of course, no demand either from construction sites, so therefore, there's no impact on customers. But in all other parts of the world, we are up and running, of course not at full capacity, but also our suppliers and partners are fully up and running. So, overall, good situation here.

When we see the magnitude of this crisis – this was in the 3rd week of March – we quickly formed five taskforces, how we will ensure that our employees can continue to work safely and their health and wellbeing, how we can support customers, and also how we find opportunities to become even stronger.

So, here are the five taskforces that we established. Clearly, the leading one, safe working and business continuity. Here, fantastic work how that team has been able to keep our operations going and our people working safely.

We also have a taskforce for the wellbeing, engagement and care of our people. It is important that we have very clear policies, how we keep our people motivated, what are the policies, how we help them work in an efficient way, work whatever they do in this environment, and all of our policies how we do if we need to ramp down our activities.

Cost containment and financial risk management. It's clear that when business activity is lower, we also need to contain our costs and very much in an environment like this, we need to manage our financial risks.

A very important taskforce, where we have done a lot of work is customer activity and sales. As I mentioned at the beginning, I've been very impressed how quickly our salesforce has moved to virtual and online selling from very often physical meetings. And currently, our customer activity – we just measure it by number of customer meetings – is clearly above pre-crisis levels. So, the time our sales people are saving from not traveling going to customers, they're using to be more in contact with our customers. This has been fantastic to drive our commercial activity even in this situation.

And we want to constantly find new opportunities. We know that every crisis also brings new opportunities and new needs. And in fact, if I look at KONE's now about 110-year history, many of our biggest breakthroughs have been during difficult times. So, we are very actively looking at what are the mid and long-term opportunities out of this, and what we have decided is that we will continue fully investing in our R&D projects, in our development projects and so forth.

But we also made some pledges and commitments to our customers to help them through this crisis. Already several weeks ago, we announced to our customers who have medical facilities – either hospitals, care homes or other medical facilities – that we will provide our 24/7 connected services for free to them during this crisis.

Now, we have already around 800 medical facilities around the world who have taken up on this offer to ensure that their people flow will remain safe and uninterrupted in a time when they have high activity. And it's so critical that people can move safely without interruption in hospitals. But this is something that we continue to do that, but already now we are at about 100 hospitals, who have taken us up on this great offer to provide that very valuable service for free to them.

So, that is about COVID-19. Let's go to more normal business-related matters. In the first quarter, we also announced that we have appointed Ken Schmid to be the Executive Vice President for KONE Americas as of April 1. I'm incredibly happy to welcome Ken as a permanent member now at KONE Executive Board. He has been since February the Interim leader of Americas.

Ken is a very seasoned and experienced KONE executive. He has had leadership roles within KONE, within sales. He has led branches. He has led change projects, processes. He has led IT functions. He has led Finance, so many different leadership roles within KONE, and a very respected leader who has a very strong track record within KONE. I'm very happy to have him lead our North America business, and I believe he can take it to even further heights than we are at the moment.

As I mentioned, we are now with the first quarter results. We also then talk more about what do we think about the overall market size for last year, how did it develop, and our market share.

The European market in 2019 grew a little bit shy of 2% if we look at both measured in units and in value. And we clearly outgrew the market last year; as you remember last year, we sold about

173,000 elevators and escalators. We grew our market share, in particular, in China and many parts of Europe. In North America and rest of Asia Pacific, we more or less held our own. But again, we did increase our market share in the new equipment business last year.

The Service business overall was last year about 17 million units and growth about 5% from prior year. We were, again, last year the fastest growing company of the major players in the market. In number of units, we grew about in line with the market. In monetary value, we outgrew the market significantly.

In monetary value, the market grew about 4% and as you know, we grew clearly faster than that. So, we continue to be the challenger and grow faster than our key competitors in services, and it is, of course, a result of the very strong position we have in the new equipment market. So, overall, I'm pleased with how we developed on this front last year.

Another strategic target for us is to be the leader in sustainability. Today, we have published our Sustainability Report for 2019, and as you know, there are a few specific targets we have in terms of sustainability. It is to have the most energy efficient products in the market. It is to constantly reduce our carbon footprint relative to our operations. It relates to safety and diversity. We have clearly more elevators than any of our competitors that are A-rated according to ISO standards. So, we objectively have the most energy-efficient products in the markets and we continue to develop well in that area.

Our target is to improve our carbon footprint relative to our sales by 3% per annum. Last year, we did about 3.1%. Year before that, it was about 4%. Our safety improved. Our industrial injury frequency rate improved from 2.1% to 1.7%; good development there as well. And our target is to have more than 20% of women in Director level positions and that increased now to 18%. That's a start and we need to go further in all of this.

We also had a lot of external recognitions for our work in sustainability. So, despite the crises we're going through, this remains a very strategic and important area for KONE.

So, that was about how COVID-19 is impacting us, how we're dealing with that, and some development towards some of our strategic targets, in particular growing faster than the market and sustainability. The next, I will turn to how the external markets have developed and how we see them developing, so this is purely an external view now.

I'm going to start with the Americas. The markets throughout the Americas were stable until March, after which we started to see wide-ranging restrictions during the second half of March in particular. Activity level until that was strong and high, and that we can see in our results as well. And we captured a lot of the real[?] opportunities from the markets.

Currently, we have a lot of lockdowns, but the situation varies significantly between states or provinces. But what is common throughout the region is that elevator and escalator maintenance has been deemed an essential service in most countries, although, we have, of course, many customer sites, particularly on travel and retail side, are closed – and leisure side – so that is impacting some of the discretionary spending.

If I look into the second quarter for the market development overall, for the Americas, it is clear that the second quarter is much more challenging than the first quarter. And the impacts of all of the restrictions can be seen much more clearly than what was the case now in Q1.

Europe, Middle East and Africa, similar situation in that market environment until March, was stable. Particularly Central and North Europe actually developed quite nicely, and high activity throughout. It's clear that Italy was the first one that we started to see a clear impact, then Spain and France, and then UK a little bit later on.

So, also, if I look at Europe, the market outlook for the second quarter is clearly weaker than it was for the first quarter. In the Middle East, also lockdown started to happen towards the end of March, but perhaps the bigger impact in Q1 were currency fluctuations and lower oil prices. But also here we see a more difficult market in Q2 as a result of lockdown.

But us in North America elevator and escalator momentous deemed an essential service, and therefore has continued quite well. Now Asia Pacific, then I'll come to China last, because again Asia Pacific, like Europe and North America, many markets developed quite well until March, and then lockdown started.

The most severe lockdown almost globally at the moment is the one in India, and India is an important market for us, so that clearly has quite some impact. China hardest hit, of course, during the month of February, but then towards the end of February, we start to see a recovery, recovery throughout March and overall market activity at the moment is on a high level. So, we've seen a very strong recovery. So, if you look at Q2, China is recovering whereas market environment in the rest of Asia Pacific is clearly more difficult in Q2 than it was in Q1. And also here elevator maintenance is an essential service.

China in more detail, how does market and property market in our business develop there? The overall market and number of units ordered, the market declined significantly year-over-year, of course, because of the lockdowns in February. Pricing environment was fairly stable, although given the market decline, we start to see some signs of price competition.

When we look forward, we expect that there will continue to be high activity on infrastructure side, and that's going to be a form of stimulus to boost economic activity. However, on the residential side, there are no indications that the restrictions in the residential market would be eased, so we continue to see strong restrictions there. What has been positive has been the liquidity increase in the market that has helped many of our customers to ramp-up quickly.

Real estate investments, while they declined overall in the Q1, in March, again, they recovered, and we're slightly higher than the year before. And residential sales volume, they also declined 14% year-on-year and new starts as well, but we start to see a residential sales volumes also recover towards the end of the quarter. And slight decline in prices, given the environment. And what is clear is that consolidation amongst top property developers are continuing, and the top developers have a better ability to purchase land in this situation.

So, that was all about the market environment a little bit how we see market developing. With that, I'll hand over to Ilkka to dive a little bit deeper into our financial development during Q1.

Ilkka Hara: Thank you Henrik, and welcome also on my behalf to this first quarter results announcement and greetings from KONE building where I'm calling into this webcast.

The call format is a bit different, but I will go through the financials in a very similar manner than normally, and deep dive a bit more into them during the next section. First, I'll start with orders-received development for the quarter.

Orders received for the quarter was €2.1 billion, and slightly up both on a historical as well as a comparable basis compared to last year. We continued to see slight growth in orders received in the volume of businesses, both in new equipment as well as in modernization, while there were less major project orders in the first quarter compared to last year.

Geographically, we saw clear growth in orders in Americas, a slight growth in Asia Pacific driven by good performance in China – I'll come back to that – and a slight decline in Europe, Middle East, Africa in orders received.

So, I then deep dive into the important Chinese market. Despite the difficult operating environment, our orders received developed very positively. On a comparable basis – first from a unit[?] perspective, we saw our volumes growing slightly. And on a comparable basis, our value grew clearly, so more than 5%, driven by both mix as well as pricing contributing positively.

Also in this market environment, very happy to see that the focus and the effort that we spent on being able to drive better pricing going forward continuously is also having an impact here. The margins of our orders received improved slightly in the first quarter, largely driven by the pricing improving for the orders.

Then moving to sales, as Henrik already highlighted, during the quarter, we did see our customers and markets being impacted by COVID-19, which is largely being seen in our new equipment business where we saw our sales declining. At the same time, we saw good performance in our services business offsetting that decline.

And overall, our sales were 2,198 million, so effectively flat compared to last year on both historical as well as comparable currency basis. Asset, new equipment declined 5.3%, whereas our maintenance business grew 5.7%, so good growth in the maintenance business in the quarter. Also, modernization business contributed positively with 1.4% growth in the quarter.

Geographically, the strongest growth in sales perspective was visible in performance in Americas, which, as Henrik said, had less impact from COVID-19, and the sales grew 5.3%. Also, in Europe, Middle East, Africa, we saw growth 1.5% in sales.

Asia Pacific had the biggest impact from COVID-19, and our sales actually declined overall 6.3%. And particularly in China, we saw the lockdown impact in sales, and our sales in China declined close to 7% in the quarter. At the same time, it's good to note that the activity level rebounded quite well already during February and March, and is now on a good level, as highlighted by Henrik already earlier.

Then to adjusted EBIT development, so adjusted EBIT was for the quarter €206 million and our adjusted EBIT margin was 9.40[?]. On an absolute basis, a decline of 10% and 100 basis points in the margin, largely driven by the COVID-19 related items.

If I look at the performance outside of the market being impacted by COVID-19, our profitability and profits continued to develop positively. However, given the situation, we had extra costs related to COVID-19 of more than €10 million, as well as then profitability was impacted by the weak fixed cost absorption due to lower sales.

The Restructuring program or Accelerate program had €8.4 million restructure related costs in the first quarter. And as said, this is the last year of the program and we continue to see that this year that cost-related program go down.

Then finally, to cash flow, so our cash flow for the quarter was €347 million. Very solid number, especially given the circumstances. We continued to see net working capital contributing positively to our cash flow, and driven by the strong performance in both advances received as well as progress payments from our customers; good performance there.

At the same time, it is good to note that KONE is in a very strong position when it comes to its balance sheet. Our liquidity position is strong. We have €1 billion of net cash in our balance sheet, and also we have a further €1 billion of undrawn, committed credit facilities available to us.

So, overall from a balance sheet point of view, we have a very strong position. With that, I'll hand back over to Henrik to talk about markets and business outlook for the year.

Henrik Ehrnrooth: Thank you, Ilkka. So, let me wrap up with the outlook for the year. New equipment markets, we expect them to decline in all regions because of the COVID-19 outbreak. I think that's pretty clear to everyone. However, Chinese markets started to recover in March, but was significantly down in Q1. Now we're seeing a recovery, so probably a slight decline for the whole year.

Maintenance markets, we expect them to be resilient, however, there will be some impact from the direct impacts on lockdown measures, particularly on discretionary spending. Amortization fundamental growth drivers, they're fully intact, but it's clear we're going to see and can see some delays in decision making amongst many customers, when you're looking at saving money and maybe slightly postponing things. But the growth drivers are very much intact there.

Our outlook, it is unchanged from the one we came out with in March. So, as you know, we have provided three scenarios, all related to how quickly economies can be opened up. In a safe way, how quickly markets recover. Best case is that we would be flat sales year-over-year. Worst case scenario, 10%, and of course, everything in between, but I think they're quite explicit, the scenarios we have provided.

And we expect the adjusted EBIT margin to decline somewhat towards to be stable at best. And we know that both as a business, as an industry, we have many things that support our performance in this difficult time. We have a very solid order book and a maintenance base. The good thing is that our margin of our orders received started to improve last year, and that, of course, provides us with benefits this year. And we have taken already previously actions in containing and saving costs, which helps right now.

But there are clearly a lot of things burning our result, COVID-19 outbreak being the most significant one. Clearly, when you have lower sales, you also have lower just margins from that, but also lower cost absorption than we had planned, but also the safety and business continuity measures that we have to take to keep our businesses growing and support our customers in the right way.

To be very clear, we are not making short-term cuts to our expenses that could impact the way we serve our customers, or if that could impact the way our people stay safe or our competitiveness. Now, all of that, we are continuing with them. We are not compromising there.

Subcontracting costs, they continue to increase and one could ask why are they increasing if activity is going to be lower. But we have to remember now, a lot of subcontractors have gone to their home countries, and it may take the time before they can go back to the countries where they work. So, there may be a shortage of capacity, not only for us, but for the whole construction industry as a whole, but for us as well.

And despite the crisis, we continued to invest in our capability to sell and deliver digital services and solutions, and also in R&D. We think that that's the right thing to do, given our strong balance sheet and the capabilities of our people.

So, overall, I'm very pleased with our performance in Q1. I think it was very solid in an extremely demanding and changing environment. And we are in a very good position to capture opportunities we have, what we have again seen in this crisis, incredibly committed, motivated people who are capable of achieving almost anything. And we have a very strong balance sheet that is the right – those are the right ingredients to really drive the company to come out even stronger after this crisis. That is clearly what we are aiming at, and we can see a clear opportunity here.

With that, I'm handing over to Sanna.

Sanna Kaje: Yeah, now we have time for your questions, so operator please?

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach the equipment. A voice prompt on your phone line will indicate when your line is open. Please state your name and company name. Once again, that is star one. We will go to our first question.

James Moore: Hello, this is James from Redburn. Can you hear me?

Henrik Ehrnrooth: We can hear you, James, hi.

James Moore: Hello. Thanks for taking my questions and I hope you're well. Firstly, I wondered if we could talk a little bit about the exit run rate at the end of the quarter for demand. And thank you for your helpful comments that China has finished very well, and the US and Europe much more challenging. I would have expected that. I don't know if you're able to help us quantify that a little bit. Are we talking China back to pre-COVID levels or indeed above pre-COVID levels in late March, early April? And the same question really for US and Europe. Are we talking about down 30% from those levels or a more modest 10%? Here I'm talking about new equipment and modernization, not maintenance which is more resilient. So, that's the first question.

Henrik Ehrnrooth: So, recovery in China has been very strong and at the moment, it looks like that is continuing. If that continues the level in Q2, I would say is probably quite a normal level of what we would expect it for the market. So, very fast recovery, but of course, it comes from a slump. And that is what I would expect from many markets when they recover, that you have some pent-up demand they want to catch up with the work that has been done.

Now, if we look at Europe, many Asian countries and North America, it is clear that going into the second quarter, the environment was much weaker than it was overall in Q1. So, it was clearly a declining trend – that we continue to see a declining trend in the markets and overall activity. And that is the restrictions have only got started and really, we can see the impact more of them now. We've only seen discussions of opening up of markets, but we haven't seen any broad-based opening up of markets. So, we will see a significant impact particularly in new equipment and partly modernization business as well.

James Moore: Thanks Henrik. And the second question, if I could, relates to your exceptional COVID costs, which I guess are PPE masks, logistics costs, those sorts of topics, maybe €10-15 million. I just wondered without being specific on the numbers, unless you want to be, do you think the second quarter will have a similar impact there or a bigger role or lesser impact on that specific item?

Henrik Ehrnrooth: Just remember, Ilkka can probably comment a little bit more in detail, but you remember, it's not only – clearly, it's PPE, but when you have restrictions, as we've seen logistics, and clearly has been more expensive and you have had to do special arrangements. And with that, we have been able to very well serve our customers in a safe way, so that is something that has been a priority. Rather than to maximize short-term profit we have wanted to make sure that we do the right thing, and serve our customers in absolutely the right way.

Ilkka, if you think about Q2, are we looking at similar levels?

Ilkka Hara: Thank you. And again, and for just to make sure that we're talking about the same thing, so, for first quarter, yes, the cost were more than €10 million. And it is somewhat difficult to give you an estimate on Q2 because the situation still evolved quite a lot.

At the same time, it's good to remember that based on what we see in the markets overall, clearly, have the worst ahead of us when it comes to all markets except China, where it's more recovery mode. So, in that sense, I don't have a good estimate to give but clearly, the worst is still ahead of us.

James Moore: Yeah, that's very helpful. Thank you. And finally, I mean, you talked about the medium and longer-term opportunities and the structural changes that might come up. I'd be interested in any earlier thoughts you have in what those might be. And on the other side, do you see increasing structural threats in the office environment, working from home, e-commerce to retail, hotels?

Henrik Ehrnrooth: I think one thing is clear that the way we live, work and spend our free time, there will be changes to that. Every time there is a crisis of this magnitude, there's been significant changes. There's no question about that, but also brings opportunities.

More people spend at homes, maybe you want to even focus more on that. You can ask is it feasible to have as tightly packed offices as we have today, and maybe there is a balance of people more working from home but you have less packed offices, things like that. And then I think what we have to see is how quickly do the travel industry recover.

I think over a long-term, people still want to explore and want to see. But there's going to be changes to that as well. So, I think it's early to see, we're working a lot on that. We're working a lot on how we will find solutions to be able to support our customers in that type of environment.

But I think in this environment, it's clear that there are health and wellbeing solutions that will be very much sought after. And our launch of our DX Class elevators with anti-microbial materials late last year was, I guess, rather well timed in hindsight.

James Moore: Yes, well, thank you very much to both. Stay safe.

Henrik Ehrnrooth: Same to you.

Operator: And we will move to our next question. Please state your name and company name.

Lars Brorson: Hi Henrik, Ilkka, Sanna. It's Lars from Barclays. I hope you are well and healthy, and thank you again for a very detailed presentation, very helpful. I have three questions Henrik, if I could.

Number one, back to China and more to your relative performance as opposed to the performance for the market overall. I mean, I appreciate ordinarily, we accept quarterly variances as just usual volatility, but this quarter clearly is a standout for you in China. I understand there's no material large project or anything else that swings the meter for you in the quarter. Obviously, you had a slightly weaker Q4, but maybe you could help me understand a little bit better at the unusually strong relative performance for you in that market.

And on the market share gain, is that an ongoing shift from the smaller OEMs or could you talk about whether you're seeing any signs of some of the structural changes we're seeing among your bigger competitors this quarter have led to some opportunities for you there?

Henrik Ehrnrooth: Yeah, I think our performance in China was very, very good. It was stellar in Q1. Not only the orders received, but I believe that we were one of the fastest companies to emerge from this crisis how we ramped up our operations.

And why do we have such strong orders received? So, first of all, we had a very good start in January. We really got off the blocks very well for this year. Then we were probably if not the fastest, one of the absolutely few fastest ones to recover out of this crisis, and that is, of course, something customers can see.

We were very quickly out there delivering to them, serving them, providing them with solutions, and, of course, that type of things create confidence and again we were able to book orders with them. So, it was very fast off the blocks, both beginning of the year and after the crisis that really enabled this. And I must say that again, here incredibly proud of what our China team has been able to achieve.

Market share, that, of course, always quarter-to-quarter fluctuates, but in this type of environment, it's clear that the smaller players have a more challenging situation overall.

Lars Brorson: Can I just be clear on the comment of increased pricing competition or signs of pricing competition, is that on the OE piece or in services as Schindler was flagging earlier today? And again, is that more from the smaller OEMs as you would expect? And maybe just to that, any signs already in March that that started to abate as volume started to come back.

Henrik Ehrnrooth: It's clear that when you have a difficult market like Q1 was, that you can easily see some pricing competition. I think Ilkka was quite clear in his comments that we had a good development overall in China in Q1. So, I think that our comments mainly relate to that new equipment business.

Let's see how it develops. We don't like to comment on pricing going forward. So, I think we have to see how the market now develops and the competitiveness, and competition there. But clearly, as we all know, China is constantly a very, very competitive market where all the big players and also many local players are strong and focused a lot on that, and that hasn't changed.

Lars Brorson: Can I ask a slightly bigger picture question, Henrik, to the impact of COVID-19 on your maintenance market? I think I heard you say that you offer 24/7 free to 100 hospitals. Obviously, a very sensible thing to do from a broader social standpoint, but it might also prove to be a sensible thing to do from a competitive standpoint.

More broadly, how do you see COVID-19 impacting the maintenance market? I would have thought in the near term, you might see some pressure on the smaller service providers, but perhaps longer-term, it could be a catalyst for digital service adoption. Is there any evidence of that, the latter, that digital services are accelerating over and beyond what you were seeing pre-COVID?

Henrik Ehrnrooth: What we've seen is that the strong growth rate we have had in our digital services has continued in Q1 despite the situation. So, there has been at least no impact where people buy less. And the reason we're doing it for hospitals is that we think just it's the right thing to do support them in a very, very tough environment. I said we have 100 hospitals now and that is just a start. I'm sure in a couple weeks we'll be at a couple of 100 hospitals that would provide this service for free during the crisis.

I think structurally, yes, I think the bigger players are probably better suited to drive the changes that are needed, but there will also be, as always, some smaller agile players who find great opportunities out of this. But I do believe that a crises such as this, customers are seeing, and we are seeing good development on getting our 24/7 connected services because that just helps keep the reliability up and you can do much more things remotely.

Lars Brorson: Understood, thank you Henrik.

Ilkka Hara: Just to add to that, if you can hear me. So, just to make sure that on 24/7, our approach has not changed. We want to give it for free for hospitals, but in general, we see that this is a value-add service. So, in that sense, that has not changed in our approach and how we go to market with that.

Henrik Ehrnrooth: Thanks for the clarification, Ilkka.

Operator: And we'll move to our next question. Again, state your name and company name.

Andre Kukhnin: Yes, good afternoon. It's Andre from Credit Suisse. Thank you very much for taking our questions and I hope you're all well. I wanted to talk about aftermarket resilience and just to double check the logic on regular maintenance, ex-repairs on three-quarters of your maintenance business.

If you put aside rebates and specific situations like India, are we right to think that this business carries through the periods of lockdowns and this year should be landing up year-on-year with units? Or is there anything else that can happen [inaudible]?

Henrik Ehrnrooth: Let's see how things develop, but so far, given that elevator, escalator maintenance has been deemed an essential service, we have also been able to, in most countries, continue with normal preventative maintenance as well as callouts.

There, of course, may be some delays to conversions from new equipment to service, but the fundamental growth drivers are not there. The longer this goes on, the more we will see impact on the discretionary spend. But then for example in India, you can do callouts and then maybe you can still start doing in a limited way, preventative maintenance, but at the moment that's not possible.

So, I think we have to see how it develops, but the fundamental growth drivers of the market hasn't gone anywhere, but clearly, there can be a little bit more impact on the business this year.

Andre Kukhnin: Thank you, and a somewhat tactical question, I wonder if you can help with that. If you look at Europe as a whole, and if you think about the last four weeks where we really had the brunt of shutdowns already set in from March 23rd, and the countries are shut down and taking it as far as you can kind of into today's point. What has been the run rate in terms of new equipment and modernization activity? I'm just trying to get my head around the mix of some countries not shutting down, but obviously still being affected by availability of labor and supply chain. Some countries completely locking down, but some things taking place even there. So, yeah, if you could help with that, that would be great.

Henrik Ehrnrooth: Clearly, it varies a lot. I mean, if you look at the Nordic countries, actually, construction activity has remained quite resilient. Yes, the whole construction industry including us, maybe we have a little bit shortage of subcontractors, but quite resilient as well as Germany.

But then you go to Southern Europe, the UK where you have full shutdown, so all construction sites are closed. Then of course you're not delivering anything, so it varies a lot market-to-market.

Andre Kukhnin: And you would have a holistic number for Europe [inaudible]?

Henrik Ehrnrooth: Well, it is significant, the impact on our new equipment business, but even in Italy, some construction sites are starting to open and so forth, but it is clearly significant. Several tenths of percentage points, the impact in that we're seeing right now.

Andre Kukhnin: Great, thank you very much. And I also wanted to follow-up on the bigger picture and to the answers you gave on what may change more fundamentally and structurally on the back of this situation. Are you seeing any evidence of customer behavior changing in China already on the back of what's happened, or anything that you are now going to be doing structurally different there on the back of the COVID-19?

Henrik Ehrnrooth: We can see a lot of discussions around that then Chinese are usually very, very quick in coming up with solutions to resolve problems. I think where we can see great development in China is that how they are enabling virtually all industries safe working. There's still a lot that Europe and North America can learn how people are safely in the offices and on sites.

Those have been perhaps the first things that have come out of there. I think people are still discussing, I think, what are the longer-term implications and those are still a little bit unclear. I think some of them are starting to emerge, but perhaps a little bit too early to comment on them right now.

Andre Kukhnin: I look forward to following up on that. Thank you very much for your time.

Operator: We'll go to our next question. Please state your name and company name.

Lucie Carrier: Hi. This is Lucie Carrier from Morgan Stanley. Thank you for taking my question and congratulations, very strong quarter. I guess my first question was around your scenarios for 2020 on the top line, which is you had barely, I would say, or no decline at all really in terms of sales or even very limited on the order side in the first quarter.

And considering China is your largest exposure and also a very heavy in terms of OE and modernization business, when I look at your construction tracker, it seems most of your main other countries, except for India, obviously, are actually operating at full steam or somewhat operating at decent level. Knowing as well that's a large part of the business in Americas and EMEA are more maintenance-related, which you said was quite resilient.

So, what I'm trying to get from you is, shouldn't we actually be thinking that maybe the first quarter would have been maybe the biggest risk for you this year. And considering how you managed it that, that we should be looking for something actually a little bit better during the rest of the year, considering the geographical balance and the mix balance for your portfolio.

Henrik Ehrnrooth: I think you would remember that we still have a very large new equipment and modernization business outside of China. And as Ilkka said earlier, let's be very clear, when it comes to development outside of China, and overall for KONE, the worst is still ahead of us. So, I think that's something we need to be very clear on. China has recovered very rapidly, which is, of course, very, very positive, but rest of the world and overall, worst is still ahead of us.

Lucie Carrier: Okay, thank you. And just as we then speak about maintenance, are you able maybe to provide us with some sort of range in terms of how much of your revenues maintenance are actually contracted and how much of repair or callout discretionary, as you were making a bit of a difference in the two during your comment?

Henrik Ehrnrooth: Ilkka, do you want to take that one?

Ilkka Hara: Yes, I can take it. So, if you think about our maintenance revenue, so the discretionary spare parts represent, roughly speaking, 25% of the revenue. And some of that is more discretionary and some of it is less, but that gives you an idea that's about the one-fourth of the revenue.

Lucie Carrier: Thank you.

Operator: We will take our next question.

Jeffrey Sprague: Hi. This is Jeff Sprague from Vertical Research Partners. Thank you for taking my question. Two questions if I could please. First on the maintenance side and contractual in particular, just wondering how, for lack of a better term, bulletproof that is in an environment like this. Do you still get paid on some of your contracts even when work is not being done on a subscription basis? Or do you, in fact, see some pressure on even the contractual work because of the nature of the lockdowns that your customers are dealing with here?

Henrik Ehrnrooth: Well, first, I would say that quite a significant part of maintenance is possible to be done. And clearly, there are some segments, some customers that will ask for suspensions of payments or rebates or things like that, but we are talking about very few individual cases, so that is not anything significant right now. Mainly then on maybe hotels and similar.

Jeffrey Sprague: Yeah, and I was wondering on the 24/7 value-added service, clearly, the implementation of that will allow you to lower your cost to serve, which should be margin supportive over time. Do you see any risk though that that service becomes really a necessary competitive product and thus it's table stakes, so to speak, that everyone is going to be there, and therefore, the ability to charge extra for it actually ends up getting undermined?

Henrik Ehrnrooth: I would say, we have clearly marketed it as a value-added services that we think there are great benefits to our customers of having it, and therefore, we have it as a commercial service. It's clear that unless we continue to develop that service forward all the time, like with any service, then you can get into that situation because it's clearly something that makes sense in this industry.

So, we continue – I think we are showing the way overall in our industry, and we need to constantly develop it, show our customers that they are better off having this service than being without it. When we can show that, then I think we can continue to have it as a positive commercial service, and that is our main focus here.

Jeffrey Sprague: Thank you and then just one last quick one for me. On slide four, where you show the representative exposure, for example, with residential greater than 50%, is that indicative of total KONE or is that your installed base service mix? Could you just clarify what exactly you're illustrating there?

Henrik Ehrnrooth: That is out of our revenues for total KONE.

Jeffrey Sprague: Total KONE, new equipment and service.

Henrik Ehrnrooth: Indeed.

Jeffrey Sprague: Thank you very much.

Operator: We'll move to our next question. Again, please state your name and company name. And questioner, if you hear your voice prompt on your phone line, your line is now open, you may be on mute.

Hearing no response, we will move to our next question. Please state your name and company name.

Rizk Maidi: Yes, hi. This is Rizk Maidi from Jefferies. Just a quick follow-up one. So, is this whole a COVID-19 crisis pointing you to change anything in the way you outsource the outsourcing business model, whether you're thinking about insourcing some of it or taking control a bit more of your supply chain?

Henrik Ehrnrooth: I don't think what we do ourselves versus what our partners and suppliers do are going to change. What I'm very happy about is that we worked very hard over many years to make sure that we have very robust supply chain. We have backups, not only many different suppliers, but also that, we can – our factories and supply chains can support each other across geographic regions.

And so I think there will be more development in that direction versus what we do ourselves versus what our suppliers do. And so clearly, this is a call for everyone to constantly make sure that you have a more and more robust supply chain, and you can have more interoperability between different geographic locations.

Rizk Maidi: Okay. And then the last one on my side, in the report, you talk about pricing pressure increasing towards the end of the quarter. So, outside of what you talked about in China and potentially some of the rebates on the maintenance, which I'm understanding this is not a big deal and still remain small as we speak, any other segments where you're seeing pricing pressure increasing?

Henrik Ehrnrooth: Okay, that's normal, if you have overall market activity declining, usually, you get some more pricing pressure. So, I think what we're mainly talking about this new equipment business and may be partially modernization. That's what we primarily refer to.

Rizk Maidi: Okay, thank you very much. Stay healthy.

Operator: We will go to our next question. Please state your name and company name.

Klas Bergelind: Yes, hi Henrik and Ilkka. It's Klas from Citi. So, I wanted to come back to the drop-through, the €23 million lower EBIT. It's obviously within the guidance of what you said, Henrik, could happen. But I still want to understand it's better given that sales growth wasn't down as much as expectations, you were quick to ramp in China. There were minimal supply disruptions. Maintenance growth was still solid. Now going into the second quarter we could see more pressure in repairs, we will have weaker installations ex-China. I'm trying to understand the underlying drop through ex the 1€0 million of COVID-related costs.

I think Ilkka, you said a 5% drop in China. Should I – and maybe this is too detailed but I will try. Could you break out that sales drop by months? I am obviously interested how much sales dropped in February and I'm thinking about China in particular. Thank you.

Henrik Ehrnrooth: Ilkka, if you can take this question please?

Ilkka Hara: Yeah, maybe I'll take it. So, first from an activity perspective, I said that we had close to 7% drop in sales in first quarter in China. And if you think about what happened, the lockdown of China impacted the period after Chinese New Year. So, we normally closed down activities for the Chinese New Year. And then we postponed to reopening the factory. So, a large part of that revenue impact compared to last year was then impacting in February when we were ramping up our capacity, but also our customers were ramping up again their sites. And we saw throughout February and March then continued improvement and recovery in the activity levels in China.

But then for the rest of the world, largely the impact of COVID-19 was more at the latter of the first quarter, so much less visible in the first quarter. And therefore, also the comments that we are expecting much worse performance or bigger impact in the coming quarter to the rest of the business outside of China.

Klas Bergelind: Yeah, I'll reach out to Sanna for further clarification on the moving parts, but my second one is on the Accelerate. Obviously, the savings here are strategic actions independent of COVID-19. And there are cost actions on top. Can you walk through the actions here? How much are we talking about roughly? Is it €50 million, €100 million? It would be great to get an indication of the temporary savings because of COVID?

Ilkka Hara: Yes. So, overall, as said by Henrik, so due to COVID-19 obviously we are taking also cost containment actions. At the same time, we don't want to jeopardize or stop development of KONE's competitiveness going forward. So, the actions that we're taking are much more focused on discretionary spend, especially on fixed cost and managing our overall spend levels across the globe. And at this stage, we're talking about some tens of millions of savings that we've identified. And obviously we continue to follow that quite carefully. So, that's on top of the expected close to $50 million savings that we're expecting from the Accelerate program in this year.

Klas Bergelind: So, that puts the margin comment of stable to slightly down, even when you think about the higher end of the sales drop. It looks quite ambitious. So, is that an assumption of that on the saving side outside of repairs that we feel very confident in the 75% continuing to grow through the period? I'm trying to understand the margin comment in the guidance on March.

Henrik Ehrnrooth: Well, I guess on the margin comment, obviously we're – there are many moving parts when we look at the guidance. If you look at the breadth of the guidance from zero to minus 10 depending on how quickly can we get on top of the situation and the government can actually then start opening up the markets. So, that's one part. And then depending on that, obviously the margin, we are seeing that at best we could be flat. But it also could be down, based on the revenue outcome out of that.

So, that's the picture. Then, if you – just coming back to your question on first quarter. So, if you look at the first quarter performance, so our COVID-19 related costs were more than €10 million out of the impact on profitability. And then obviously the weaker fixed cost absorption. So, we had planned for higher revenues, and both you get profitd but also more importantly, the fixed cost absorption is lower. And on top of that, there are a few millions of cost related to the Thyssen acquisition.

Klas Bergelind: Okay, my final and rather briefly on digital sales, how much, Henrik, did it add to the maintenance growth? Was it still around 1%? And I guess that if we look at the total digital, it's not contributing to profits yet. It's still a breakeven business. Just want to get an update on where you stand in the first quarter.

Henrik Ehrnrooth: So, Ilkka, do you want to take that or…?

Ilkka Hara: Well, go ahead if you start.

Henrik Ehrnrooth: So, it's something in that range. It's clear that we're still in a very heavy investment phase in that, but of course we also scaling it up quite well. So, yes, at the moment, we're probably more in a breakeven way. And yes, it has a positive impact on our revenues overall.

Klas Bergelind: Thank you.

Operator: We'll move to our next question. Please state your name and company name.

Erik Karlsson: Erik Karlsson from CapeView Capital. Thanks for taking my questions. So, I had two please. Just on raw materials, could you just give us an update now how the raw material situation is looking for you in terms of hedging and prices for the rest of the year?

And then the second question was on maintenance growth. You did a very solid 5.7% in the first quarter. Should we expect that number to decelerate in the second quarter given what you said about spare parts sales in some of the COVID-19 affected countries? Thank you.

Henrik Ehrnrooth: Ilkka, do you want to start with the first question?

Ilkka Hara: Yes, I'll start with the raw materials. So, raw materials, we had a fairly good visibility now to raw material cost and component cost in first half. Obviously the prices for raw materials have been quite volatile in the recent weeks and months. But overall, we expect raw materials to be neutral for the year, possibly having a bit of a tailwind in the latter part of the year coming out of them, but let's see how that develops. There's both the raw material components which is changing, but as well then depending on exactly what we deliver, that also then impacting the actual outcome in the second half.

Henrik Ehrnrooth: And your other question Eric, so yes, we had good growth in our maintenance business in Q1. I would say that if we look at Europe and North America, it developed quite in a normal way.

There was some impact in China. So, it was below trend growth clearly in China because of the lockdowns in February. But remember, where is the majority of our maintenance sales, that is in Europe, North America. And as we said, we expect the impact of the lockdowns and development to be more severe – clearly more severe in Q2 than in Q1. Therefore, the impact in Q2 is going to be clearly more than it was in Q1.

Erik Karlsson: Thanks, very clear. Great. Thanks for all the hard work for our shareholders. Thank you.

Operator: We'll move to our next question. Please state your name and company name.

Alexander Virgo: Hi, Alex Virgo, Bank of America. I trust everybody is well. Thanks for taking the question. It's just a broader one on the shift – on your salesforce, the shift to virtual working. And you mentioned that activity rate has, I suppose arguably, even increased given the efficiency of being able to just get on the phone and I'm sure that we're seeing this ourselves as a sell side community at least.

I wondered if you could talk a little bit about the conversion rates and the customer dynamics around advance payment. Clearly, obviously, orders held up very well in Q1, but you mentioned that was a basis of a very strong January. I'm just trying to understand the dynamics of that customer relationship and the conversion of order rates going forward. Thank you.

Henrik Ehrnrooth: We know that new equipment business in particular comes a little bit with the delay to the whole construction sector overall and that's why we continue to see good development in many, many places so far. And I would say that tender rates and all that activity has been quite good, particularly bigger developers are continuing – and I'm talking about globally – are continuing to take their projects forward. And we continue to see new opportunities, but I think it's too early to say what the overall impact will be. And that's something we monitor very closely that how much are we getting new opportunities, what are the tender rates. But at the moment in many countries, it's been surprisingly resilient. That doesn't mean that we're not going to see a decline, but that's a longer-term question. Q2 clearly it's going to be more tough the environment.

So, I think most companies are still trying to figure out what this means. A lot of companies are still continuing to drive projects forward in a development phase. But then we have to see what is the impact when you have to make a decision and make your investment commitments for new buildings and so forth. So, I think that's too early still to see what the exact implication will be.

Alexander Virgo: Thank you. And just I suppose in follow up to that last point, if we do see – well, we're clearly going to see a significant drop off in terms of – or deferral in terms of decisions around larger projects and the starting or financial approval of some of these larger projects. What hangover does that have on the broader construction market? And I wanted to pick up on a point you made in your opening remarks about tightness of labor and subcontractors moving back home. How do you see that speed of recovery? Because I guess shortage is one thing, but availability and preparedness to travel and move back in. I appreciate it's all very in the air right now, but I'm just curious to hear how you develop that thought into the trajectory of recovery.

Henrik Ehrnrooth: Yeah, it's a good question. Of course I think at the moment you have to remember that most of what we delivered this year we have in our order book. China, we still have – given the fast rotation, the order book is still need to – booked quite a lot of new orders for delivery this year. For the rest of the world, what we have in the order book this year is what we deliver. So, we know that. So, as long as those projects going forward and they seem to be going forward.

So, I think it's more of this year issue with resources that how quickly can people start to travel between borders, both in Asia, Middle East and in Europe. And that's probably going to take sometime. So, we're going to see some shortage but probably as we get towards the end of the year or next year I'm sure there's going to be more solutions to that problem. And then we're starting to look at fundamentally how much new demand there will be.

So, I think this comment was more of a shorter-term issue, how quickly you can ramp up construction in many European countries and perhaps in the Middle East is probably going to be more challenging than in terms of speed compared to China.

Alexander Virgo: Thank you very much, very clear.

Operator: Now we'll do our next question. Please state your name and company name.

Antti Suttelin: Yes, thanks. This is Antti from Danske Bank. I have a big picture question. If you look at this industry from the helicopter view, especially in terms of operating margin, I think we can say that in 2018 this whole industry took a step down in margin. Then in 2019 it stabilized or started a fragile recovery. Now this crisis in 2020 gives a new hit to the industry's operating margin. Do you think it is realistic to assume that the industry will recover from this and be able to turn, on a sustainable basis, the operating margin trend upwards again?

Henrik Ehrnrooth: So, if you look longer term, clearly I think what we need to do or to be able to get margins up is we need to constantly show that we can add more value to the customers. And I think that's what we've been working very well on if you look at all the new solutions we've come with. And I think factoring those is really what's going to drive that. I don't think it's going to be a similar driver that we saw after the financial crisis where margins very much came up because the huge ramp-up of volumes in China.

We're probably not going to see that on a global basis. But I still have full confidence that we can do that longer term because of the new solutions, because of the finding much better solutions to challenges and needs that our customers have; with that we can drive up margins. And I think we were on a pretty good path to getting into that direction. But clearly this is a setback and if I look at the services business, I think the opportunity is definitely there. It's also in new equipment although volumes may be hit.

Antti Suttelin: Okay, just nice to hear your thoughts. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: We'll move to our next question. Please state your name and company name.

Guillermo Peigneux: Hi, it's Guillermo Peigneux from UBS. Thank you very much for taking my question and I hope everyone's safe. I guess one follow-up question regarding China. As per Ministry of Housing, Central government started to include proven renovation as affordable housing projects, i.e. at the moment I think starting in 2019, but I guess even most of the case in 2020 the Central government is funding support for renovation. And that in some instances will have the elevator industry. I wonder if you saw this during the quarter as a helpful trend. And as we move forward and this becomes a more meaningful market, what would be the impact in mix, i.e. now that if you participate in this affordable or modernization market, how would the margins mix react to it as we move forward? Thank you.

Henrik Ehrnrooth: I don't think that mix will have a major impact; we already participate in many affordable segments as it is at the moment. So, I don't think that that's a big issue, at least as we have identified.

Guillermo Peigneux: And has this helped your growth trends during the first quarter or was this normal mix in terms of order intake?

Henrik Ehrnrooth: I think it was pretty normal mix in terms of order intake. And for [inaudible] brand[?], we had as you saw a spectacular performance in Q1.

Guillermo Peigneux: Thank you.

Henrik Ehrnrooth: Thank you, Guillermo.

Operator: We'll move to our next question. Please state your name and company name.

Andrew Wilson: Hi good afternoon. It's Andrew Wilson from JP Morgan. Just a couple of – probably follow up some comments you made on the Q1 actually. Clearly, cash doesn't seem like it's been any issue in the Q1 in terms of collection. And similarly on the supply chain, it feels like obviously a little bit of extra cost, but no bigger fundamental problem. Are we safe to assume we can hope for the same in Q2 and the balance of the year? So, basically, no major supply chain concerns at the stage and no major concerns in terms of cash collections.

Henrik Ehrnrooth: Ilkka, if I comment on the supply chain and you can comment on the cash situation. The supply chain, as I said, so far we have had a very robust supply chain. It has functioned well and currently the situation looks very promising. However, I think it will be very bold to now make strong predictions of how this pandemic will continue, what lockdowns we're going to see, what openings we're going to see and so forth.

So, we are definitely going to see some unexpected situations. That is quite clear. But I would say at the moment, our supply chain is robust and functioning well. I don't foresee changes to that, but we've seen so many situations in the past few months that we could never have experienced. So, I think that's just important to note here.

Ilkka Hara: And maybe I'll then continue on the cash flow and receivables. So, yes, cash flow was strong and solid in the first quarter. Also, net working capital contributed positively and as you saw, receivables actually came down within the quarter. But it is clear that there is a risk in receivables going forward. And also in bad debt, and we're taking active measures to monitor and collect. But as I said earlier, especially in markets outside of China now we expect that there's more impact in Q2 and that increases the risk also in receivables.

Andrew Wilson: Thanks, that's helpful. Can I ask a question just on relationship between new equipment and modernization, just trying to think about almost – I guess my question is whatever I see for new equipment declines in the Q2 as a starting point, should I be assuming that modernization is weaker still? Just on the basis of perhaps it's easier to defer for some customers, it is perhaps not as immediate payback[?] versus obviously getting a piece of equipment in a new building up and running. Just trying to get a feel for how we should be thinking about that, any comment is helpful.

Henrik Ehrnrooth: What I would in general say first about modernization, it's clear it's a much more faster cycle business than new equipment. So, based on shorter-term decisions. I don't think it will be a major difference between the development of new equipment and modernization, pretty similar impact of lockdown for both of them.

Andrew Wilson: That's very helpful. Thank you and maybe I'll just squeeze just one final one. And just you made a number of comments around investment and in maintaining the levels of spend even when things are difficult. I'm just trying to get a sense of when you talk about maintaining the spend, would we expect R&D to be a higher cost in absolute terms year-on-year or would we rather expect it to track sales? Just trying to get a sense of that.

Henrik Ehrnrooth: Well, our plans for this year would have been an increase in absolute amount. With growing sales, it could have been probably flat or service slightly up relative to sales. Now, if sales is down, it's going to be clearly a higher percentage of sales. That's what it looks like at the moment.

Andrew Wilson: Okay, so it's maintained in absolute levels is a reasonable base case?

Henrik Ehrnrooth: Or slightly up.

Andrew Wilson: Yeah. Okay, perfect. Thank you very much for your time guys.

Henrik Ehrnrooth: Thank you.

Operator: We'll move to our next question. Please state your name and company name.

Denise Molina: Denise Molina, Morningstar. Hi. I had just a follow-up question on the digitalization. In terms of the take-up rates, you talked before about the potential for doing more remote monitoring to help reduce visits from technicians. And I imagine that this would be a scenario where people would be – your customers are thinking about doing that more.

So, if you have an elevator, a modern elevator with more of the digital products and I'm thinking that those would be less open to third-party maintenance teams. That's what we've seen in some of the elevators, at least in Europe. So, I'm just wondering if that's potential upside for you in terms of long-term retention of maintenance contracts going forward. And what percentage of your installed base right now has those elevators that have software where third parties probably would not be able to do the maintenance?

Henrik Ehrnrooth: Well, first I would make a statement here that that competition laws in most country is such that you cannot prevent others from maintaining your elevators, same as in cars. So, it is a fully open and competitive market. I would say what is perhaps more important why we're developing this service so much that if we can have proprietary services where we are a step ahead of most of our competitors, then that's something that is a real value-add to our customers. And that is the way we retain them and maintain our customers. And I think that's the way you want to maintain costumers. That is how you help them. That is how you keep the best relationship with them and the best long-term business rather than locking someone out from doing it.

Denise Molina: I guess we have some anecdotal evidence of that, but that may not be the case broadly. But the second question I wanted to ask is on the smaller players. Again, you were talking about before that they might have seen some disruption in their own businesses from the COVID-19 restrictions in China. And if the essential – if maintenance is an essential service, wouldn't they also be able to maintain their businesses? And given that China is – really for a smaller business is about maintenance and not so much about the OE side.

Henrik Ehrnrooth: Yeah, of course it's the same situation for them. I think the bigger players probably have a better ability to provide training, I would say PPE and methods, how you work in a safe way in this environment and following it up, and usually have more financial resources to do that. The comment on the Chinese market that I made earlier was more related to – when I was asked about market shares, was more related to the new equipment market rather services market.

But I also do believe that when technology starts to play a bigger and bigger role in the maintenance market, that the bigger players will have a better position. There will always be small players who will be very strong and innovative there, but I still believe by and large the larger players will have a better ability to invest and roll out the services.

Denise Molina: Do you have a portion of your base already doing remote monitoring where you replace some of the actual physical visits?

Henrik Ehrnrooth: I wouldn't say we're necessarily replacing so much physical visits. What you do is that you can do them in a much better planned way and you can prevent unscheduled call-outs in particular. That is the biggest thing. And you can plan your maintenance over the lifetime of the equipment in a much, much better way. So, it comes to unscheduled call-outs have gone clearly down for the elevators that we have connected by quite a significant amount. And then when you can create much better plans for how you serve them over the life cycle. And that of course provides value to our customers because it provides them with reliability, predictability, and transparency and of course, we can plan our work better.

Denise Molina: Okay, that's great. Can I ask you one last question, in terms of the pipeline in China, going into this you obviously had a pipeline and then coming out you're saying that things are looking better. Would you say that the pipeline strength is the same on the other side of the COVID-19 measures in China that was going into it?

Henrik Ehrnrooth: In terms of the tender pipeline or what you refer to?

Denise Molina: Yeah, so the tender pipeline for new orders for new installations.

Henrik Ehrnrooth: We have an overall good situation. We don't guide or give comment on pipeline or orders maybe going forward, but I think as we showed in the first quarter, the overall situation in China is good.

Denise Molina: Okay, great thank you so much.

Henrik Ehrnrooth: Thank you.

Operator: We'll move to our next question. Please state your name and company name.

Martin Flueckiger: Yeah hi this is Martin Flueckiger from Kepler Cheuvreux. Thanks for taking my questions. I've only got one actually left since all the others were answered. So, just to come back on your experiences during the COVID-19 lockdown in China. And I guess there were a great deal of lessons learned by your management team. I was just wondering how you intend to leverage this experience to do the EMEA region and particularly also to North America. And whether there's any conceptual differences in how you respond to the pandemic in these two other regions in the western world so to speak. And what you think will be the likely outcome in terms of the order intake and revenue performance compared to Q1.

Henrik Ehrnrooth: So, firstly, clearly I said that we have experience from China how to deal with this and as we can see, it's gone quite well. I mean, our global business continuity teams and crisis management teams, their global teams work and share experience constantly between what went well in China, what we could have done better, how we can apply that to Europe and North America. That is clearly something that we're working very, very actively on all the time.

Martin Flueckiger: Okay. So, you think that'll help you also, because you were saying originally that Q2 was going to be much more severe than Q1. Just thinking, if you've been going along your learning curve the way you informed us, that the way you told us that this is happening in Q1, I'm just wondering whether the mitigation effect will be much bigger or much more significant in the western world in Q2.

Henrik Ehrnrooth: I think the recovery is probably not going to be as well coordinated across Europe as we saw in China and probably not either in the United States. Because remember that we are now – almost the first month of the second quarter is behind us with very severe lockdowns. And what we saw in China is that markets were starting to open up in February and it took probably three to four weeks to ramp up that activity, which I consider very, very quick. I don't think that recovery will be as quick in other parts of the world. And that's why I think we still – as I said, that's what we said that if we look at Q1 and then forward, then we can clearly as I also put in my letter in the Q1 report that the worst is still ahead of us.

Martin Flueckiger: Thank you so much.

Operator: We'll take our next question. Please state your name and company name.

Wasi Rizvi: Hi, it's Wasi Rizvi from RBC Capital markets. Thanks for taking the questions and the details you have given. Just a couple left for me. On the maintenance market share commentary you gave on the 2019 market data, so did I hear you right that you think you're the only major player to be gaining share? And then just in terms of what's driving your share gains in that market, could you help us understand what – is it simply a function of the new equipment you've sold in the past year or is there another factor that we need to be aware of which is helping you gain maintenance share?

And then the second question was on maintenance growth this year. Can you talk us through the components of that market growth? And I guess you should have a reasonable handle on how the units, the market tends to grow by, but then there's that, and then there's also the pricing. So, can you talk us through the range of outcomes you think is possible for pricing and maintenance for you at the group level for this year?

Henrik Ehrnrooth: So, when it comes to market share, I did not comment on our competitors' market share. I only said that I believe that we were the fastest growing of the major players. I think that was my comment. And clearly why are we growing so fast in maintenance is because we have a very strong new equipment business. And therefore we have a lot of units that come into conversion and we're converting those successfully. That's clearly driving our growth here.

If we look at what the outlook before this crisis was for the maintenance market was a similar growth to last year. So, you can think of units probably would have grown 5-ish percent. We are probably going to see some delays to conversions in the market. Then overall, the value of the market did not actually not grow quite as fast as units. And that's simply a function that China is the fastest growing market and their average value per unit is lower than it was – what it is in parts of Europe and Americas.

So, I think those same trends would have continued on. And then of course – so yeah, other than that, we were last year successful in improving our pricing on a global basis in maintenance last year.

Wasi Rizvi: Okay, and just to follow up. In terms of this year, what do you think the range of outcomes is on pricing for your maintenance revenues? Is it going to be a positive contributor, negative contributor, what range are we talking it could be given what's going on?

Henrik Ehrnrooth: We try to be very clear that we don't comment on pricing going forward. I think that's something we have to see. I think what we can see is if we have lower market activity overall, we're probably going to see a somewhat tighter pricing environment, but that's something we have to monitor and see and do the best we can in the environment we have.

Wasi Rizvi: Got it, thanks.

Operator: And that does conclude our question and answer session for today. I'll turn the conference back over to management for any closing remarks.

Henrik Ehrnrooth: Very good. Well thank you all for active participation. We all know it's exceptional circumstances and exceptional times and visibility is not quite what we usually have in this industry. But overall, as I said that I feel that at KONE, we are in a very good position to deal with this tough situation, given the strength of our team, the motivation and commitment of our team, and our very strong balance sheet. Those are very important assets just in this environment.

And we are going to see many situations ahead of us in the coming months that we have not expected. But with the same spirit and drive we'll continue finding solutions to them. So, look forward to talking all of you in the second quarter. I hope we have more visibility. I hope we have a better situation. And I hope all of you are safe and will stay safe and healthy. All the best.

Operator: That does conclude today's conference. Again, thank you for your participation.