KONE Half-year Financial Report 2020

July 17, 2020

3:45 p.m. EEST

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Sanna Kaje: Good afternoon, and welcome to KONE's Q2 Results presentation. My name is Sanna Kaje, and I'm the Head of KONE's Investor Relations. I have here with me today, our President and CEO, Henrik Ehrnrooth; and CFO, Ilkka Hara. Henrik will first go through the Q2 highlights. Ilkka will discuss the numbers in more detail, and Henrik will then discuss the outlook. In the end, we have plenty of time for your questions. Henrik, please.

Henrik Ehrnrooth: Thank you, Sanna, and also welcome to our Q2 results announcement. And I'm very happy to share some great news with you today. We had a very strong quarter in a very difficult environment, an environment that I don't think any of us has experienced during their careers before.

If we then start with the highlights. We had a very strong recovery in China, that was clearly an important driver of our performance, but that was not only all. It was actually broad-based good performance. However, we can see that orders received had been impacted by higher level of uncertainty around the world. But despite this environment, we were able to improve our earnings and have an exceptionally strong cash flow.

Perhaps the highlights to me in the quarter was the result of our employee engagement survey, which improved significantly from already high level, which shows that from our employees perspective we had done something right over the past years and in this crisis.

As Sanna mentioned, I'll start with the key figures. Ilkka, of course, as usual, dive more deeper into them. I'll then talk about how we have performed during the crisis. I'll talk about how we're developing KONE, a little bit more about our employee engagement survey and the markets. Ilkka will then talk about the numbers more detail and I'll wrap up with the outlook.

As I mentioned, the highlights really in our Q2 figures where our EBIT. Our orders received, here we can see the more challenging business environment with €2,075 million down 9.4% in comparable currencies. We continued to have a good and solid order book at €8.3 billion, flat year-over-year. And our sales growth was flat in the quarter €2.5 billion. Our EBIT of operating income improved by 2.9% to €315 million. And our adjusted EBIT, which is a key performance metric for us improved by €320 million to €325 million; and our adjusted EBIT margin improved by 0.2 percentage points to 12.8%. So clearly, a performance that I'm very happy about. As I mentioned, exceptionally strong cash flow at €592 million. And earnings per share improved to €0.47 from €0.46.

And as we always say, one quarter is a short period of time and we have now six months behind us, so we can look at a little bit longer performance. And that actually says quite a lot how this crisis has impacted KONE. Clearly, in the first quarter it was more China that was impacted. We started to see some impact in rest of Asia and South Europe but then really broader based impact in rest of the world outside of China really happen in Q2.

And orders received for the first half declined by 4.8% to just shy of €4.2 billion. Our sales flat year-over-year at €4.7 billion, and operating income declined by 1.8% to €513 million. And the adjusted EBIT declined from €548 million to €530 million. This is of course because of the weaker EBIT we had in Q1. And margin down to 11.2% from 11.6%. Clearly, a very strong cash flow in the first half at €939 million, by quite some margin an all-time high for six months for us. And earnings per share at €0.76 compared to €0.78.

It's really environments like this that the culture, the commitment, dedication of employees are measured. And here I'm very happy to say that I think we've done quite well from that perspective. Really the KONE culture, which is a very much down to it culture, where hardworking is valued, really dedication to delivering upon our promises is very, very important and we're seeing the people really going out of their length to serve our customers doing that in a safe way and that's something I'm, of course, incredibly thankful for. I must say I couldn't be more proud of the entire KONE team for how they performed in the first quarter and generally thankful for everything they've done. So big, big thanks to all of our employees. Just a stellar performance.

So let's start by talking a little bit how the COVID crisis is impacting KONE. If you start from more the installation side of business on new equipment and modernization, as clearly China recovered very strongly and we had significant growth across businesses in China. But the fact that construction sites and buildings were closed did impact our ability to install and modernize in many parts of the world, particularly many Asian countries and in South Europe. Central North Europe and Americas businesses continued in installation more normally than in South Europe and rest of Asia. But we can also see that demand has been impacted significantly outside of China.

In maintenance, our business has been very resilient because elevator and escalator maintenance is deemed as an essential service in most parts of the world and therefore contractual sales has been resilient. We can see that sales has declined slightly in our maintenance business, decline of 1.7%. I think the environment we've gone through, it shows a very strong resilience of that business. So we can see that the contractual sales has continued quite normally but it's clear that there's been impact on repair and other discretionary activity that is directly impacted by the lockdowns. So big difference area to area, which I think is pretty clear to everyone already.

If we then look at the situations of what restrictions we had in various markets in operating our business. As we all know, China has returned very much to business as usual and is operating normally. Also many countries in Central North Europe, particularly the Nordic countries, Germany, I would say quite normalized operations when it comes to installation and when it comes to services. And also throughout Q2, North America pretty actually good ability to install on construction sites there.

South Europe has been harder hit but we are going into a better direction where more of the markets are being opened up. And the toughest market from a restriction point of view at the moment is Asia Pacific, outside of China, particularly India, Indonesia, Philippines and so forth. There, we continue to have clear restrictions in place. How the situation is going to develop, we, of course, don't know and we, of course, know that the situation in North America looks concerning.

So how have we operated in this environment? As we already presented to everyone in Q1 that we established five task forces on how we're going to manage throughout the crisis. And I feel that that has worked quite well. It's clear that we have learned a lot during this quarter and we continue to improve the way we react to situations such as this.

As for most companies, the first and foremost priority has been safe working for our people and business continuity. This our claim has worked quite well. We have been able to constantly help our employees to work safely and provided them with equipment to do so. And our business continuity has been good. We have been able to continue to deliver to our customers throughout this period.

Very important for us has also been the wellbeing, engagement and care for our people. We know that times like this can be concerning for all people and how can we help our employees to perform at their best, provide them with the resources, with the help, with the support for them to do a good job. Some examples of this is that we have had a very strong increase in completed courses in our e-learning platform, which already has been in very active use compared to most other companies.

But we have also reached out to societies and we have provided support for children schooling for example by providing laptops, kids who can't afford them to provide – to enable them to do remote schooling, and other such efforts in over 40 countries. And this has been something that our employees have felt have been very important that not only are we working and helping our own company but the societies around us.

In a crisis, one, of course, always need to take actions to contain costs. We have, for example, frozen recruitments. We have not traveled, which saves quit a lot of money, and, of course, looked very carefully at financial risk management.

As I already talked in Q1, a success story for us has been our customer activity and sales, how we very quickly moved our sales organization to a virtual mode and got sales activity very high and in most places doubled the number of customer meetings compared before the crisis. But of course the quality of those meetings is high when they are only remotely.

But I would say that we have also learned a lot here, which part of sales we're going to keep in face-to-face mode, where we can be more virtual and how we really utilize our digital channels and digital marketing much better. So this has been an area where we have taken big steps forward and learned a lot.

We have also focused a lot on what are the mid and long-term opportunities, what are the big changes that are going to happen as a result of this crisis and actually put some bets in that area. That in fact increased our investments in R&D, IT platforms compared to what we've planned early in the year. Given the situation we have, we can invest in the future. And, of course, the objective of all of that is to come out as an even stronger company following the crisis. I feel that we are on the right path but of course the results will only be shown in some years' time but that is clearly the objective that we have.

Much of what we've done over the past years have been actually taking us in a good direction considering what's happened over the past four, five months. Our focus on our digital services, our 24/7 connected services were really leading the markets. It's of course a service that is very well suited to this; less physical interactions, more doing things remotely digitally and actually improving the service level.

And because of the fact that we had that service everywhere in the world, we early on in the crisis decided that we're going to provide this as a free service to hospitals, other medical facilities, care homes during the pandemic. And this has been very appreciated. A large group of hospitals are taking up this service and very much appreciate having their most critical equipment to able to move people more better working and more transparency, more reliability and safety in this environment. That has clearly been appreciated.

We launched our DX Class elevators in Q4 last year. And we can see what these solutions can do, is again very well suited to an environment like this. Not only do they come with antimicrobial surfaces but the fact that they come with connectivity built in and with our digital platform, the ability to provide new services through application program interfaces, is really perfectly suited to environment like this, where our customers are looking for adaptability, where our customers are looking for new services that we can then provide to them remotely. That we can see is something that has really chimed with our customers. And in Europe where we started roll out, we can see that actually roll out has been successful, very good reception for all our customers and we can see that we're getting a premium for the services and the fact that they are future proof these products.

But also during the quarter, we launched our health and well-being solutions, that have to do with touch-free elevator course, has to do with air purification, has to do with sanitization, hand rails of escalators and so forth and many other things. And that is of course something that I believe will be interesting to customers. We can already see lot of interest there; and of course still early days.

But an important thing we focus a lot on is we have our people for planning and consulting team. We have actually trained a lot of people more in helping our customers plan their offices for safe return to office premises. So we have used case studies and we have used best practices that we have shared that how do you setup your flow in your building to make sure that people can stay apart in a safe away but still work efficiently in an office. Of course, there's a lot to do also with the algorithms how we setup your elevators, how you move people in the building. So this has also been something where we have had high activity and continue to focus on and how can we help our customers also return to offices safely and navigate this type of an environment. So those are some examples how we say we've been helping cities and buildings become smarter and safer in this environment and in general as well.

Now I mentioned already that the highlight really for me during the quarter was the results of our employee engagement survey. Perhaps the most important number is our participation rate. Out of our 60,000 employees, 92% answered the survey which we did in late May, early June. This is a phenomenal result. And that really shows that KONE's employees wanted to be heard and we had very relevant results.

Already last time we did the survey, where we – above the so-called high performing norms. We've been above the high performing norm for a few rounds already. But now we improved significantly from that. Out of 13 categories that we measure, 11 improved, one was stable and one was new. So very broad-based improvement, and we've got particularly high scores for our strategy and the direction of our innovation. So that is I feel very positive.

And it's also clear that in a crisis like this, the way we had responded to the crisis has had a positive impact on the results, that I think is clear. But the magnitude of our increase shows that we have been going in the right direction and we have been able to make KONE a better place to work. That is our strategic target is for KONE to be a great place to work and this shows that we're going in the right direction. Of course, we'll always have work to be done. There are areas for improvement and we humbly going to look at those and continue to work on this. But overall, I feel that these results were very, very good.

So let's turn to market development. That was more about how we develop KONE and some developments within KONE. Markets. Let's start with new equipment market. As we know, big difference in demand. Overall, probably pretty stable given the strong performance in China. But in North America, markets declined significantly and we continue to see uncertainty there. Europe, Middle East and Africa, big difference between Central North Europe and Southern parts of Europe. Central North Europe, actually several good countries like Germany and Nordic countries, and of course, given the severity of lockdowns in many South European markets and in Middle East, we saw more clear declines.

Asia Pacific, again, very big differences. China, significant growth, double-digit growth in the market in the quarter, whereas rest of Asia Pacific markets declined significantly. And I've talked already about the challenges in markets such as India, Indonesia, Philippines and so forth. So there we saw some much bigger impacts. So clearly continue to see a challenging demand picture in many parts of the world.

Services. You can see that maintenance markets have remained resilient and in overall number of units in the maintenance markets continued to grow, where there's been more challenging part in maintenance market has been the discretionary aspect like repairs. But overall North America maintenance markets pretty stable. Europe, Middle East and Africa number of units continued to grow and continue to grow clearly in Asia Pacific.

Modernization in both North America and Europe, Middle East and Africa has been impacted clearly and therefore markets declined significantly. And Asia Pacific again big differences. China grew and more difficult elsewhere.

So talking about China. What about the Chinese property sector in second quarter? Clearly, that was an important market and of course a very important market for KONE. In the second quarter, markets grew significantly year-over-year. Primarily first quarter declined and now they recovered strongly. We are seeing an intensified competition and that is affecting the pricing environment. As we'll hear from Ilkka, we've done quite well in pricing but it's clear that the environment is getting tougher.

The government is stimulating via the infrastructure markets, so we continue to see high activity there. And while the activity in the residential market has been very strong, we have to remember that there are lot of restrictions in place there still. And also liquidity has improved for developers.

Just looking at some of the numbers. Real estate investments up 8.5% June now compared to June. Residential sales volume up 2.1% year-to-date, so good recovery following Q1. And new starts also in June up 9%. We don't have the latest – we don't have the June numbers for price changes in the 70 biggest cities, but in May it was 5% up. And as we talked about the consolidation of property developers, that continued.

So that is about the markets little bit more in detail. Let me next hand over to Ilkka to dive a bit deeper into our financial performance. So Ilkka, please.

Ilkka Hara: Thank you, Henrik, and also warm welcome on my behalf to this second quarter results webcast. I'll go through our financials in a bit more detail. And as already said, I have good news in number of fronts to share.

And I'll start with orders received development first. So our orders received for the quarter were €2,075 million, which is actually down on a comparable basis 9.4%. We clearly saw the COVID-19 impacting our customers, their decision-making, especially if we look at Europe, Middle East, Africa, Americas and Asia Pacific excluding China, where orders received declined significantly. However, in China, we did see the recovery, as Henrik talked about it, being quite swift in the second quarter. And our orders received, measured in units, grew significantly and in monetary value clearly. Like-for-like prices continued to develop positively – had a positive impact but mix was slightly negative in the quarter.

Secondly, if we look at our orders received margins, we continue to see margins improving slightly in the quarter, pricing develop positively, and there I would call out especially the introduction of our new products such as DX, as well as the new services helping us to differentiate. And at the same time, yes, there were some easing of the cost pressures that we've seen also impacting our orders received margin.

Then we move to sales. So our sales for the quarter were €2.5 billion, effectively flat both on a reported and comparable basis. We saw new equipment growing at 4.9%, and there clearly a very strong recovery especially in new equipment deliveries in China impacted that. In maintenance, our sales declined by 1.7%. And there our contract sales actually developed well and were quite resilient in this unprecedented environment. But as Henrik already highlighted, our repairs business, the part of the maintenance business as a more discretionary was impacted by the situation, especially as the buildings were used less. So we saw repairs being negatively impacted, as well as in the modernization, where sales were down 15.3% in the quarter, as customers were both – their decision-making was impacted but also wanted to postpone some of the projects to minimize the risk in their buildings.

If we look at geographically the developments, first, biggest impact was in EMEA, where we saw our sales declining 8.9% as well in Americas where the sales declined 6.1%. In Asia Pacific, driven by the strong performance of China, we saw a growth of 11.7%. And it's important to understand that, in China, our sales grew more than 20% in the quarter due to very strong recovery in the quarter, whereas in rest of Asia Pacific, as what highlighted already earlier, we saw much more impact from the environment in sales.

Then to adjusted EBIT. Our adjusted EBIT for the quarter was €325 million. Very good performance, solid execution with our order book in this tough environment. Very proud of this number. We grew 1.6% compared to last year, and also our EBIT margin grew from 12.6% to 12.8%.

If you look at the drivers for this development, obviously we had underlying positive margin outlook for the business, also the strong deliveries in China contributed positively. But at the same time we did have extra costs – negative costs related to COVID-19, which were partly able to offset with a selective cost containment actions that we talked about already, as well as some items such as in China, we had some of the social security payments, where there was discounts in the quarter. So they were less. And the impact of that was approximately €7 million in the quarter positive. Restructuring cost for Accelerate program were about €9 million and the benefits were about €15 million in the quarter.

Then to cash flow, which was exceptionally strong in the quarter, €592 million. And while there's always fluctuations on quarterly basis on our – on the working capital and cash flow, I would call out few items that are specific to this quarter. So first, on the working capital, we saw a positive impact coming from increased payables due to a very strong recovery in China of approximately

€70 million. In addition to that, in some countries, the governments decided delay payments for government-related payments such as VAT expenses in some countries, which also had approximately €50 million positive impact to our cash flow. But as such, cash flow always fluctuates on a quarterly basis and I'd like to say that in many cases in this quarter we saw that being positive impact to our cash flow.

And with that, I'll stop and hand over back to Henrik to go through our markets and business outlook for 2020.

Henrik Ehrnrooth: Thank you, Ilkka. And as we wrap up with outlook for markets and business. So let's start with our overall market outlook. In new equipment markets, we expect that the Chinese markets to be relatively stable. We know in third quarter it declined, now it increased and full year we expect will be quite stable. Other regions, the equipment – new equipment markets is expected to decline because of the uncertainty and that's I think pretty clear to everyone.

Maintenance markets we expect it to remain resilient and of course excluding the more discretionary parts that are directly impacted by the lockdowns, as Ilkka already explained from our – for our maintenance business. Modernization[?] markets, there we continue to see good fundamental drivers. However, that's the business where we have seen most hesitation in decision-making and going forward. So therefore, that's probably going to continue to be impacted but still the drivers are there and in tact.

When it comes to our outlook, which we have specified, we have now six months behind us. And remember, in March, we came out with our revised guidance when we could really start to see the magnitude of the crisis. We provided three scenarios. We were quite earlier on out there providing them. So we had three different scenarios, as you remember. And they all ranged in sales from minus 10% to 0%.

Now that we have six months behind us, we can narrow that range. And we believe there is now – our sales is going to be anywhere between minus 4% and 0% in comparable exchange rates compared to last year. The adjusted EBIT margin is expected to decline slightly or to be stable at best. So continue with the performance that we have had would be very good.

There are a number of things that are supporting our performance. We have a solid order book and maintenance base. Ilkka talked about the improved margins in our orders received that we have been able to deliver on, that's of course important, behind our margins here and our accelerate savings. But clearly, we have things burning the results. Clearly, the costs of the COVID-19 outbreak, the fact that we have lower cost absorption that we had planned for, safety and business continuity measures. There in a crisis it just makes sense to do anything that's required to keep business growing. And of course, the fourth is costs.

Subcontracting costs, particularly in Europe, some parts of Asia continued to be high. Now it's more not the question of very high demand, it's a question of getting people to the right places and providing safe working environments that have increasing costs but it's the right thing to do. But also we have proactively decided to invest in our capabilities to sell and deliver digital solutions and in R&D, so that's something where we are spending more but it's something I'm very happy about really strengthening our capabilities there. And if exchange rates stay at this level, that's going to be about a €20 million headwind for the full year. So that's about our business outlook.

And then if I summarize; very happy about our strong performance in a very challenging environment. Again, a big thanks to all KONE employees for the fantastic work they have been doing. You can see that the investments we've done in differentiating, bringing out new solutions have really been well suited to what's happening now and putting us in good position.

And also we're facing this weaker economic environment, strong positional strength if you look at the skill and motivation of our employees, if we look at our competitiveness overall and we look at our super strong balance sheet, those are really great ingredients to come out as an even stronger company as a result of this crisis. That is clearly our objective. As I said, results will be shown in some years' time, but at least I feel that we are going in the right direction.

With that, I am happy to open up for your questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing 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 our equipment. Again, that is star one to ask a question. Our first question comes from Jeff Sprague with Vertical Research.

Jeff Sprague: Thank you very much. Good day everyone. Just wondering if you could elaborate a little bit more on the interest level that you're seeing around DX and the well-being solutions. Not surprisingly, you noted some uptake there. But maybe a little bit of additional color on how you see that play out and any particular vertical market or country taking the lead on considering these solutions?

Henrik Ehrnrooth: So let me start with this health and well-being solutions. And it's interesting you can see different preferences, priorities to different areas. And it's clear that in Asia there seem to be more focused on touch-free solutions whereas in Europe and North America perhaps more on air purification if you look at elevators.

So we can see that lot of active dialogue there, lot of interest. But we can see that still lot of companies are still thinking about what are their – what is the approach going to be, how are we going to change the way we work and how we move our people? So I believe that the interest is definitely there. Lot of – yeah, I would say, lot of leads and requests there but we are still early days. So I would still say that let's see. I think its promising, but I still think we have to see.

When it comes to DX, that's something we started to roll out in Europe at the beginning of the year. And there we have very quickly ramped up sales of DX instead of our old products faster than we had expected, because customers say, 'Hey, I don't exactly even know what the digital services are that I want to have in the future, but this platform gives me the ability to be flexible, to bring new services, I need them.' And also this antimicrobial services has of course been a big hit.

So I think overall good momentum early on. So we had to see. Now of course the overall demand situation is a little bit more challenging. But we can also see that in a difficult environment, our customers, they need to find ways of differentiating how is my residential building different from someone else than my office building. And then you look at all aspects and we can see that elevators have become more important, and therefore we are more central to their discussions how they think about opportunities for the future. So that's perhaps what I would say at this point.

Jeff Sprague: Thank you for that.

Operator: We'll take our next question from Lars Brorson with Barclays.

Lars Brorson: Thank you very much. Hi Henrik, Ilkka, Sanna. I hope you're all well. Henrik, if I can try my luck with three questions. One on revenue guidance for the year, one on your maintenance business in the Americas, and one just on your China outlook and thoughts going forward there. If I can start with your revenue guidance, revised guidance down 0% to 4%. Just very simply, can you help us with a bit of color around your three key segments – new equipment, maintenance and monetization, and your expectations? Or at least maybe try to rank them and what your thoughts is – or what your thoughts are at this point for the full year from a revenue standpoint across those three?

Henrik Ehrnrooth: Well, I would say, of course, as you've seen in this quarter, big differences area to area. I mean it's clear that the maintenance business is the most resilient one, no question about that. We have a very solid and healthy order book or new equipment side. And if the markets continue as they area, we should have a pretty resilient business there as well. But of course that depends on all – on how markets are open, our ability to install. So in most places that quite – that is very possible at the moment with the exception of some Asian markets outside of China.

So we have to see there clearly. But as I mentioned already, most impacted is modernization. And I think that's kind of logical, lot of modernization happens, for example, residential buildings and maybe people have – not wanted to have lot of work been done in their buildings now while they had to spend more time there and maybe not want to have so many workers there and so forth. So that's – I think that is more flavor on that. Ilkka, do you have anything to add to that?

Ilkka Hara: No, I think it's a good way to describe it.

Lars Brorson: Thank you, Henrik. And maybe just following up on that and moving on to my questions with regard to maintenance in Americas, down, what, mid-to high-single digit this quarter. I understand within that, your spare parts business is down solid double digits. That's about a quarter of your maintenance business. That's obviously a higher margin shorter cycle business. I presume that's partly impacting your 2020 guidance. I was struck by your comment I think around North America outlook was, quote-unquote, 'concerning,' and I agree, but that's not the first time we've heard it in this earnings season that the outlook around that part of the world does look more challenged. I wonder whether you can give us a bit of flavor for the development around, particularly your spare parts business in North America. And I appreciate, again, it's a different type of business than your EMEA business, is most skewed to commercial buildings. But the thoughts around whether you think that might pick up as we get into the second half of this year?

Ilkka Hara: Yeah. Maybe I'll start and if Henrik you have more to do add to that. But if I start from kind of putting things to context in terms of the maintenance business. So we saw overall the maintenance business has been down 1.7%. And if I look at the components, then really, as I said, the contract sales part of it is quite resilient. That's the ongoing maintenance.

And then there is discretionary part, spare parts business which is a bit more than 25% on global level of that business. And there we actually did see ourselves been down about 10% in the quarter. And if I look then North America, clearly, there our exposure to office and retail is higher than on average at KONE. So there that was clearly impacting it more.

Henrik Ehrnrooth: Only thing last I would say is you talk more about spare parts, of course, it's repairs overall. Spare part is only a part of that.

Lars Brorson: I'm sorry, Henrik, I did mean repair, not spare parts indeed. And I wondered whether you could give a bit of a flavor for what you are thinking for the second half of this year?

Henrik Ehrnrooth: I think that business will be very much dependent on how people are returning to offices, how people are returning to shopping centers, all of that. But why is that business down? It's clearly that there's been lot of buildings that have not been used. And if they're not used, the need for repairs of course more or less goes away and clearly some customers are also working hard to contain cost in this environment. So I think that would depend on much how well companies are able to return to offices, will start to facilities more broadly and so forth.

Lars Brorson: If I can try my luck with a third and final question just on your China market outlook. We've seen a V-shaped recovery this quarter versus first quarter. Unsurprisingly, you're keeping the market outlook for 2020 stable. That surprised me a little bit. First half is flattish overall. Your exiting first half at a double digit run rate. I appreciate your comment Henrik around government restrictions. But I thought there would be enough to see growth overall in the markets. Maybe the specific question around that would be, are you already starting to see a sort of a slowdown or a moderation visible in parts of your business after a very strong Q2?

Henrik Ehrnrooth: I think the point really is that we saw a sharp decline in Q1 and now you saw recovery in Q2. So you kind of recovered to a normalized level, actually a little bit even beyond. But then you start to have of course high comps to compare it to. And I think if you compare to anywhere else in the world, if you have a stable market compared to what was very strong markets second half of last year, then I think it's not a bad situation. But I think we have to see. Let's see how it develops. Clearly, second quarter recovery was better than what we had expected.

Lars Brorson: Thank you both.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.

Operator: Our next question comes from Lucie Carrier with Morgan Stanley.

Lucie Carrier: Good afternoon, gentlemen. Good afternoon, Sanna. Three questions from my side. I will go one at a time. If I could have a follow-up on last question on China. I think you've mentioned a negative mix in the quarter and probably a bit more pricing pressure. The last time we had seen pricing pressure, the market was down sharply at the time. So we could understand people being a bit more aggressive. What do you think is happening now with the mix and the pricing dynamic which seems to be going slightly the wrong direction?

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

Ilkka Hara: Yeah, I'll start with the mix. So actually for us the mix comment was more between KONE and GiantKONE in Q2. Then slightly towards more the GiantKONE and then KONE. If you remember in Q1, it actually was the opposite. So I wouldn't read too much into this mix. It fluctuates on a quarterly level somewhat.

Henrik Ehrnrooth: Yeah. So and the – sorry, second part of the question.

Ilkka Hara: Pricing.

Henrik Ehrnrooth: Yeah. Pricing environment, sorry, of course. I think as we look at this from a global perspective that a lot of global players or regional players and with the markets down in most other parts of world, clearly people are focusing more on China. So I think that's really been a global context rather than just China.

Lucie Carrier: Okay. Thank you very much. My second question was, maybe also to come back to what you will see at the moment in office buildings or other commercial facilities. I was wondering if – thanks to all of your kind of digital tools now at various level on the maintenance, whether you had a good sense from your standpoint of where or how quickly the ending of the lockdown measure or allowing people to come back to offices and retail shop. And I'm just curious to understand whether you are able to calibrate either your staff or your resources as you are seeing potentially this people going back to this building kind of ramping up. Are you able to follow that? And if you are, are you able to give us some indication on how quickly you are seeing all of these facilities reopening?

Henrik Ehrnrooth: So the answer is yes, of course, we can adjust our resources and of course we are in close contact with customers and how they are doing this. For the buildings where we have real-time connectivity and we can deploy analytics, we can see that. But we know that's still only part of our base where we have that ability. But then we can see it but I think what you can follow on general movement of people, the traffic of people around, where there's lot of data around there now, that chimes quite well with what we see.

Lucie Carrier: Right. And I guess maybe the last question before I go back on the queue would be on the capital allocation. At the end of your commentary, you've mentioned very strong balance sheet, which has been the case for many years. Obviously, at the moment, it looks like that is an opportunity is on the table. So how do you think of using this very strong balance sheet in the next couple of quarters, couple of years?

Henrik Ehrnrooth: Well, I would say just where we are right now, of course, it's a huge strength to have a balance sheet like we have. That means that we can make choices, we can find opportunities and of course we are looking for them. In a crisis like this, I think it's a real strength to have a balance sheet like we have. And that's what I will say. Very happy about it.

Lucie Carrier: Sorry, so maybe are you suggesting that this is more still looking on M&A opportunities the way you want to be using this balance sheet?

Henrik Ehrnrooth: Absolutely. If there are good M&A opportunities that will come up, of course, yes, we're going to look at them and we have lot of firepower to do such.

Lucie Carrier: Thank you.

Henrik Ehrnrooth: Thank you.

Operator: We'll take our next question from Gill Peigneux with UBS.

Guillermo Peigneux: Hi. Good afternoon everyone. It's Guillermo Peigneux from UBS. I wanted to actually further elaborate on Lucie's questions, as, I guess, your comment in the press release today of a stable Q-on-Q pricing in China and the mix also referring to China. I wanted to ask, first of all, when you say stable Q-on-Q what do you mean and then again you're commenting on the prices comment that you just did before. Could you explain us a little bit what has happened in the trend on pricing, because the market is going up and this is strange to see the pricing is now flat Q-on-Q after many quarters of increases? And then on the mix, you mentioned, KONE – GiantKONE and KONE. But is this related to GiantKONE maybe more focused to residential markets versus KONE into non-residential or other markets? Thank you.

Ilkka Hara: Maybe I'll start. And first looking at the pricing. So if I look at the pricing, so year-on-year, we were actually slightly up, and, yes, more stable quarter-on-quarter there as we have seen this improvement starting earlier. And I don't think the environment – yes, it's getting tougher but we've been able to actually perform quite well I would say there and I'm quite happy about that development from a pricing perspective.

At the same time then for this GiantKONE-KONE mix, as I already said, there's always fluctuations on the mix on the quarterly basis. So this time we had a bit more weight on the GiantKONE side compared to KONE. In third quarter it's actually the opposite. So I wouldn't say that really if you can read too much into it in the market. It's just a way this quarter is happen to be.

Guillermo Peigneux: Thank you so much.

Henrik Ehrnrooth: Thank you.

Operator: We'll take the next question from Klas Bergelind with Citi.

Klas Bergelind: Yes. Hi Henrik and Ilkka, Sanna. It's Klas from Citi. So the first one for you, Ilkka, on the bridge. So obviously solid execution and that's really good to see, but there's also a mixed element that I would like to understand. So the orders, the sales conversion is very quick in China, and China is still higher margin than other regions, so the mix has been good. Could you comment, Ilkka, on what it did to the quarter in the bridge there and to what extent execution on the cost side is sustainable, i.e., did you have savings that will drop out as activity increases? I will start there.

Ilkka Hara: Well, first of all, I think it's good to remember that the environment that we're working on in Q2 it's been quite unprecedented, so it's not straightforward to – as would normally be. But it is true that we had very strong recovery – strong deliveries in China. That's clearly is a positive impact in the bridge. Also if you think about the bridge overall, we had accelerated savings contributing positively but at the same time then, there's also cost headwinds which were against us there in the normal increases in costs.

And I would say then if I look at the COVID-19 related items, so we had extra costs related to operating in this environment, some of them are really related to PPE, protection and as such, but I would still maybe call out even more so that the complexity of this environment, how it causes us to maybe lose a bit of productivity and extra planning and really reaction times to our customer situations, that's a bigger cost. But in the COVID-19 related costs, so the extra costs were higher than what we were able to see as cost containment actions including the – what I call out such as special reduction in social security payments in China. So overall, this was a negative contributor.

Klas Bergelind: Let me ask you like this instead. So when you look at the regional margin between China and developed markets, were you really sort of positively surprised about China and what do you – but were you also positively surprised in developed markets? Did you feel that – I'm just trying to gauge whether like the China component was really like a bigger driver to the margin than maybe we can see out to the numbers.

Ilkka Hara: Well, along the fact that our sales in China grew more than 20%, obviously it's a big number. So that's definitely what the project had contributed. And as we've been explicit, our net new equipment business in China is better than average profitability business. So that's clearly contributes positively. In elsewhere, the situation has been much more about than working in this environment where the restrictions has been more tighter and coping with that complexity.

Henrik Ehrnrooth: I'll probably build on that here that still our performance in North America, in – particularly in Central Northern parts of Europe has been strong in the environment. So there we actually – there we did better than we had even expected and we've been able to deliver on the good pricing and on that good margin on our order book. So it is not only there and perhaps from a margin perspective clearly the fact that we have less repair sales than headwind on margins as well. So there are always puts and takes.

Klas Bergelind: Yeah. All right. It's very impressive. Well done. Then my second one is to coming back to Lucie's on the balance sheet. So obviously very strong cash flow and the macro environment is improving. And this could see the debate in the market resurfacing on whether KONE is ready to pay extra dividends. Now at the same time Thyssen is owned by private equity and there might be long-term holders, so no Thyssenkrupp might come back as an asset for sale at some point. So would it – okay, I'm not sure I would ask it. Would you it make sense to sit out and wait for that opportunity to come back even if it takes several years or to pay an extra dividend? Just want to hear a little bit more from you, Henrik?

Henrik Ehrnrooth: Well, I would say that first of all, that opportunity has now gone. We've closed our books on that project and we are looking forward and developing KONE as it is. So of course the benefits to that haven't got anywhere but we are looking certainly forward. I would just in general say that in an environment like this, I'm really happy that we have a strong balance sheet and I think there is real value to it.

Klas Bergelind: Okay. Quick final one is on the sharp ramp-up of sales of the new range and that's good to see. Could you also comment on the digital services, whether there has been any like surprising change on the acceptance levels already now, sort to maybe in light of COVID? I mean, it's interlinked with the new DX, and, i.e., how KONE Care and 24/7 is being rolled out? So is that also increasing as part of the maintenance mix?

Henrik Ehrnrooth: So on our 24/7 Connected Services, of course, DX is very new. 24/7 Connect Services, yes, we have seen increase in month-on-month growth numbers there, particularly in many European countries and some Asian countries as well and China. So yes, we have build momentum there. And I think customers realize that those are services that are very good in an environment like this.

Ilkka Hara: And maybe to add to that, you are also referring to new Connect Care. So just today, the way we sell our maintenance service. So there is no old way. We sell our service with this offering and that continues to go rollout as renegotiate contracts with customers and new customers or add to our maintenance space.

Operator: Thank you. And next question comes from Andre Kukhnin with Credit Suisse.

Andre Kukhnin: Good afternoon. Thanks very much for taking my questions. I wanted to just talk a bit about coming back to normal in the countries that unlocked, an experience you're having there compared to China where they obviously are trying to stage a catch up as opposed to just coming back to normal. How would you assess that sort of degree of urgency in Europe or in North America in kind of coming back to normal or trying to catch up, compared to how you sort of China developing three months ago?

Henrik Ehrnrooth: I think we have to recognize that the situation is quite different. China had a very quick, very sharp full lockdown and they were able to do it quicker and then come back. And we can see that Chinese have remained very focused on wearing masks and tracing and all of that and testing. So they'll be very effective there and therefore being able to keep the situation under control. I don't think the situation is as well under control in most other parts of the world and therefore we see a more gradual recovery.

It's clear that also that the countries where you've had had the most severe lockdowns and longest lockdowns takes longer to come back. So we are really seeing this catching up as you would say. We can see a better performance in the countries where lockdowns have been more limited and virus is better under control, such as most European – most Nordic countries have course, except for one, and Germany and countries such as that. So there we see that business is becoming more normalized, whereas it's going to take longer time for example Southern Europe to become normalized. And whenever that normalizes, this is of course then a totally different question.

Andre Kukhnin: Right. Thank you. And one of the kind of arguments we've heard is that we won't be able to come back to prior level because with social distancing, labor productivity cannot be as high as it was. On construction side, it takes longer to get people off, etc. Again, looking at China, proven to be otherwise, but is this just kind of plowing more hours into it or do you think from your, again, experiences around world if it's possible with the kind of new rules to get to those kind of speeds of production as prior to COVID?

Henrik Ehrnrooth: In China also there are measures in place to make sure you stay healthy and very active monitoring and testing and so forth. But one very simple difference we see between China, many Asian countries, and Europe is that everyone is wearing a mask, and that has an impact. And I'm not a scientist here but anecdotal evidence and other evidence that we've been seeing, it seems to be. And that is just a cultural thing and it does help.

Andre Kukhnin: Thank you.

Ilkka Hara: And maybe also more – maybe commenting on the construction side as a whole, but for us obviously we work quite a lot in the shaft alone. So it's a bit different situation for us but – if the construction sites are not progressing, then it's impacting us as well.

Andre Kukhnin: Got it. Thank you. And I also wanted to ask about sort of slightly longer look, longer as like 12 months longer look forward. You've got obviously benefit of an order book that spreads to that length and beyond. Would you say there is a risk building up over kind of air pockets in any geographies of this concern that we've restarted the sites that were already operating pre-COVID but there's not enough of the new permitting and approvals and budgeting and planning going on and that sort of – do you see that kind of risk building up on maybe nine to 12 months?

Henrik Ehrnrooth: I mean, clearly, in some countries I think that's probably going to happen. How broad-based that's going to be, we have to see. Again, the big difference is country-to-country. So clearly the hardest hit countries already they're planning and that has slowed down. So you can get an air pocket. But I think it's a bit too early to say. Yes, that's going to happen in some countries. How broad-based it is, I think we still need to see. At the moment, we have a solid order book going forward and of course that's important to continue to build on that.

Andre Kukhnin: Great. Thank you. And if I could just maybe try one more. In terms of that piece of maintenance work that didn't happen during the lockdowns, the more discretionary part. Would you say that all of that is kind of capabilities not used and hence elevators didn't go up and down and didn't wear and tear and hence didn't need repairs and spare parts? Or is there an element of some work being delayed that is pushed into following quarters?

Henrik Ehrnrooth: Well, it's obviously very hard to say. There probably is both. So some of the work is postponed and then maybe that's something we need to catch up. But then fundamentally some of the equipment was not used as much. So that part I don't see that is were able to catch up but just you don't have the wear and tear that you normally would have.

Andre Kukhnin: Half-half, or is it skewed one or the other in your view? Your guess is significantly better than mine.

Henrik Ehrnrooth: I'm not in a guessing game.

Andre Kukhnin: Fair enough. Actually, sorry, if I may try to one other question. I just wanted to clarity completely for everyone. So in China on new equipment pricing, you're up year-on-year and stable compared to Q1. But we talk about toughening environment because there is increasing kind of commercial activity amongst your competitors or in the market generally or have you actually seen any one moving prices clearly like we've seen in end of 2015-'16?

Henrik Ehrnrooth: I would say when you have an environment like this and the biggest opportunities and growth is in China, it's pretty normal and usually that most companies put more of their focus into China. That's where we're going to capture the growth and that just then fuels the competitiveness; and of course it is the biggest market. And yeah, I don't think it's anything more really to that than the overall environment and you want to find opportunities there.

Andre Kukhnin: Got it. Thank you. I think we're in the same page. Thank you very much for your time. I appreciate taking all these questions.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.

Operator: Our next question comes from Antti Suttelin with Danske Bank.

Antti Suttelin: Thank you. This is Antti. On the margin issue, it seems that looking at your order intake margin improve year-over-year and your sales margin improvement year-over-year, the explaining factor was the strong rebound in the Chinese new equipment margin – market. Then at the same time you are saying that you are seeing underlying increase in competitive pressures in China and then you also say that you are seeing a strong rebound in the market in Q2 as a one-off basically compens ating for the weaker Q1. So what happens to your margins, order intake and sales, when those two impacts start to impact, meaning that the strong rebound no longer continues in China and then the underlying competitive pressure starts to impact?

Henrik Ehrnrooth: I think we have to see what the situation is. The only thing we know at the moment is we have a healthy order book with a good margin. And I think you're little bit overplaying China. Yes, China was, of course, very important to our performance in the quarter but actually if you look at our performance in many parts of Europe and in North America, it was actually also very strong. So it was not as one sided as you suggested.

I think we have to see what the situation is going forward. We don't know what prices will be going forward and that's always negotiation we have with our customers. Only thing that we know is that we have a healthy order book where year-over-year margins are up, and that's what we're going to deliver upon now going forward.

Antti Suttelin: Yeah. And on the order intake margin side, would you – are you potentially a little bit nervous that the improvement that you have seen over the past quarters on a year-over-year comparison is potentially coming to an end just basing on your commentary about the Chinese competitive environment toughening?

Henrik Ehrnrooth: I think our message is very clear that it's becoming tougher. Yes.

Antti Suttelin: Yeah. All right, let's keep following the situation. Thank you.

Henrik Ehrnrooth: We follow it very closely. Thank you.

Operator: We'll take our next question from Joel Spungin with Berenberg.

Joel Spungin: Yeah. Hi. Good afternoon. I was wondering if I could ask about the modernization market. Obviously, you said that, that had been – there's certain degree of caution in that market. Is that true in China as well or is the Chinese modernization market proving to be a little bit more dynamic?

Henrik Ehrnrooth: Yeah. I mean as we showed in this one picture both the sales but also demand, Chinese market modernization is clearly different from rest of the world. So continued strong demand there and good growth in that market.

Ilkka Hara: But it's fair to say that it wasn't as strong as we have seen in the past year as well.

Henrik Ehrnrooth: The market had some impact.

Ilkka Hara: Yeah.

Henrik Ehrnrooth: But it's still growing.

Ilkka Hara: Yeah.

Joel Spungin: Okay. Thank you. And then if you think about some potential stimulus maybe in European markets, do you think that modernization is likely to be a beneficiary if there's a push to encourage people to improve energy efficiency in buildings and things like that?

Henrik Ehrnrooth: Well, let's see what happens with this Europe's €750 billion plan, of course. Negotiations are going as we speak. Of course, a big part of that has to do with green buildings, modernizing them and that's big part to the green deal. So there could definitely be big driver. And I think overall, we know that buildings are the biggest consumers of energy no the planet and tenants are asking much more for green buildings, healthy buildings. I think that's a good driver for modernization going forward, perhaps not just like today but going forward. And I think if you get the stimulus program through, that's going to be a big aspect of it.

Joel Spungin: Okay. And then maybe just to follow-up on that quickly. I mean do you have a sense very, very broadly about how relevant elevator usage is in terms of building energy consumption? And to what extent has – is there an energy efficiency benefit for a new elevator versus a 20-year-old unit?

Henrik Ehrnrooth: Well, clearly, it's a big difference. 20-year-old unit and a modernized elevator is a big, big difference energy consumption. Elevators are not the biggest users of energy and building maybe could be 10% or so depending on the building. But when you take an old building and want to have it energy efficient, you need to look at all aspects. And therefore, I do believe and I am confident we will play a role clearly heating, cooling, ventilation, insulation, all those are probably bigger things and – but bringing intelligence into the building, bringing much more efficiency, efficient elevators and escalators would clearly be an aspect of it as well.

Joel Spungin: Okay. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Our next question comes from Martin Flueckiger with Kepler Cheuvreux.

Martin Flueckiger: Thanks. Good afternoon gentlemen for taking the questions. Actually just one last – I was just wondering whether you could talk a little bit about your raw material prices and your intermediate prices and the impact they have on adjusted EBIT in Q2 and what kind of impact you're expecting for the overall year 2020 and based on current prices, would there be a tailwind or headwind for '21? Thanks.

Ilkka Hara: Maybe I'll take it. And if you look at the raw material prices and obviously it's important to remember that it's mostly component that we buy and therefore they have raw materials impact their prices. But it is a slight tailwind for us in Q2. And – but not too meaningful to call it out actually. It's different than we've seen in the last years where the headwind was considerable.

If I look at then the second half and how is that developing, obviously the price has been quite volatile lately and also there's a question marks in how the deliveries will accelerate above on second half. And that plays a role on what the outcome is. But it potentially could be a bit of a tailwind for second half for us.

Martin Flueckiger: Okay. Thanks.

Operator: Our next question comes from Daniel Gleim with MainFirst.

Daniel Gleim: Yes. Good afternoon, Henrik, Ilkka and Sanna. Can you hear me well?

Henrik Ehrnrooth: Yes.

Ilkka Hara: Yes.

Daniel Gleim: Maybe let's start with Ilkka. I have a question on the cash flow drivers in the current quarter. Could you maybe quantitatively explain what the drivers are that you consider more one time for this quarter, which ones you think could reverse in the quarters to come and which ones are more structural, i.e., will last into future quarters and lastingly support your net working capital as a portion of sales? That would be the first question.

Ilkka Hara: What I already said was really related to the working capital development what I consider to be maybe more exceptional for this quarter and one which clearly was on the payable side, where the strong ramp up in China during the quarter increased the payables and that's about 70 million positive impact to cash flow.

And then the second one was really related to government-related payments, VATs and such, where many other countries have decided to postpone those during the second quarter. If I look at the developments going forward, obviously, it's hard to forecast cash flow; but especially on the government-related payments, I mean, if there's a decision then not to continue as such measures then that would probably reverse. Similar on the payables, I mean, it is likely that it could reverse going forward.

But if I look at overall the cash flow, I mean, it fluctuates on a quarterly basis quite a bit and this time if you look at all the items they seem to be going on a positive side. So maybe that's why we also call it out that has exceptional quarter in terms of cash flow.

Henrik Ehrnrooth: [Inaudible].

Daniel Gleim: Very clear. Thank you very much. Maybe Henrik, on the commentary on the order intake, major projects, more down compared to volume. Should you read this as inter-segment mix comments or residential versus the other ones? Or is the same pattern present within the different segments, i.e., major projects within residential more down than volume? Could you help us on that?

Henrik Ehrnrooth: As you know, major projects that fluctuate quite a lot quarter-to-quarter. So there is of course parts of that and then part of it is that the recovery in China was really very much on the residential construction side where we booked a lot of orders. So that also have an impact. But also in Europe for example residential construction has been more resilient than some other segments. So all of those play into that.

And as I said, these major projects can fluctuate quite a lot quarter-to-quarter, that's also – so maybe there are kind of many things. But in general, yes, as I mentioned, residential is more resilient. And I think it's going to be more resilient going forward with low interest rates and people valuing even more having a good home right now and so forth.

Daniel Gleim: Very clear. Thank you very much. And maybe my last question is on the modernization, sales growth rate in the current quarter. Could you maybe quantitatively give us an indication which direction the trend has been over the quarters over modernization sales less negative at the exit of the second quarters or is there a positive trend visible already or I have to in more or less unchanged or even turning more negative at the end of the quarter?

Henrik Ehrnrooth: Perhaps going to a better – because it's so linked to lockdowns and restrictions and ability to access sites and particular ability to access residential buildings. And when situation gets better, of course, those restrictions are smaller. So probably the toughest part was, I would probably haven't now looked so deep about April, May probably the toughest, but clearly that's going to be a market that continues to be impacted.

Daniel Gleim: Very clear. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: We'll go to our next question from Andrew Wilson with JP Morgan.

Andrew Wilson: Hi. Good afternoon. I'll be very quick in the interest of time. I just wanted to check a couple of points on the kind of the Q2 bridge, I think, following up on Klas a little bit. I think with the Q1 results, you gave us some help in terms of what to expect. And I think it was that you'd have more help from the Accelerate programs and perhaps more help from sort of short-term discretionary savings in the Q2, but then the sort of COVID-related costs and sort of loss of productivity would be higher. I just wanted to check that that's kind of how the quarter played out because I think clearly you've come in with a very, very good margins, certainly a lot better than the analysts were expecting. I was just trying to get a bit more detail on sort of the moving parts within that, and it would be very helpful in terms of the balance of the year as well.

Ilkka Hara: So on Accelerate, it is about €15 million for the quarter, so it continues to build up as we move forward. But then on the COVID-related costs and savings. So that's – if you think about in Q1, most of the impact in COVID-related topics was in China, starting to come to Europe and North America. So in that sense, the negative costs related to it are clearly bigger part in Q2 than in Q1. But also our cost containment, so for example traveling effectively was stopped in Q2, so that wasn't the case in Q1. A very little savings coming from there. So in balance, both grew; but that said, cost containment versus the extra costs is clearly is a negative contributor.

Andrew Wilson: That's very helpful. Thank you.

Operator: Our next question comes from Wasi Rizvi with RBC Capital Markets.

Wasi Rizvi: Hi. Thanks for taking my question. Just a couple left from me. Firstly, you mentioned that resi has been obviously more resilient at the moment, and particularly, on the service side and offices are more impacted. But thinking about your pipeline and going forward, are you seeing any change in customer and developed confidence in moving forward by segment? And I'd just be interested to hear what you think is happening already. And I mean, the obvious ones, I guess, hotels and leisure be equally, whether infrastructure projects, whether you're seeing more or less enthusiasm and same for office?

And then the second question was just to be clear on something that's come up a few times. But do you think in Q3, the pricing will already be negative year-on-year in China? Is that your current base case? Or do you think it's still up?

Henrik Ehrnrooth: Maybe I'll start with this last question first is that we don't – I don't know and we don't comment on pricing going forward. We just tell about the environment is and then we had to see what our success has been. And that's something we'd be very clear on.

In terms of the segments, where do we see the biggest confidence? Clearly, infrastructure, that's something that the governments are focused on. And I know that there are some governments that are very focused now on how can they get infrastructure projects quickly to be construction-ready because they of course use long leads. But the ones that are happening, they are going forward and that's seen as an important stimulus measure in China but also many other parts of the world.

Residential seems to be a good confidence to continue with that. Anecdotal evidence from our customers is that people are looking for slightly bigger apartments, which of course is something that kind of makes sense if you want to have more from home working as well. But then I think you call it out, hotel, leisure and people of course holding off and shopping malls.

Offices – actually depends on quite a lot and there's some interesting trends where people are thinking now about how to redevelop offices to meet these needs. So I think there will be again opportunities there. But I would really say residential infrastructure is strongest and then of course the other end of the book and – are retail and hotel and leisure.

Wasi Rizvi: Thank you. And I just – and are there any kind of standout anomalies by region, whereas one region is doing something different to the rest of the world that you've picked up on?

Henrik Ehrnrooth: Very similar and more driven by the restrictions that if you think about how people are able to work and take things forward.

Wasi Rizvi: Great. Thank you.

Operator: We'll take our next question from Andre Kukhnin with Credit Suisse.

Andre Kukhnin: Thanks so much for taking my follow-ups. I'll be quick. I wanted to double check on China and that kind of recovery there. We follow some data on contract awards. And that seem to show even kind of sharper bounce back. And when we compare that to how you see it or how you report in the quarter, it does look like there's a kind of a bit of a lead in that contract awards data. So the question I have is whether you feel that the kind of bounce back in China is fully played out in Q2? Or is this something that's kind of ramped up through Q2 and actually exited at a full rate?

Henrik Ehrnrooth: Well, I think what we're saying is you had to always remember where you start. If you bounce and if you go further down and bounce back, what level are you compared to a normalized level. We expect if the markets are staying stable, then we expect high level of activity going on forward this year. So I think one has to be very careful when look at bounce back and what they're actually comparing to.

Andre Kukhnin: I was just thinking about April was kind of the first months in China when I think yourselves and broader peers called back to normal. So I'm just wondering whether you had that kind of spike in May and June faded or has it kind of spiked and continued? I appreciate this is more granular than we have discussed but I think it's unusual times.

Henrik Ehrnrooth: I would just say that activity continues to be good in China, but they bounced back – But we have to remember where do you come from. Now we bounce back to the more normal level, actually even beyond a normal level. And yeah, that's what we came from, so that's the bounce back. Then we expect the solid activity going forward. That's our message.

Andre Kukhnin: Got it. Thank you. And just more broadly on kind of world's post-COVID or rather I guess with COVID, have you seen any kind of clear structural actions being taken by customers that respond to or talk to how they believe the world will operate post-COVID, i.e., have you seen major hotel projects being pulled for good or have you seen – you mentioned I think just now in terms of offices being reconfigured. And if you were to take the sum of that, where does that land you in terms of degree of demand in commercial in your view in, say, end of 2020 and beyond?

Henrik Ehrnrooth: I would say most – the vast majority of customers are still thinking what does it mean and that means that they probably have more things on hold. Maybe a few hotels projects and things like that have been pulled. But what we see more on the office and commercial side is that people really thinking what does it really mean, what does it mean? And I don't think anyone has full clarity as to what are the implications. So I would more call it wait and see mode and trying to figure out what it's going to be. Of course, some hypothesis emerging; but I would say that's the stage where we are.

Andre Kukhnin: Thank you. And what is emerging? Very excited to know.

Henrik Ehrnrooth: Well, I think that healthy safe indoor environments with better air circulation with better ability to distance people that also have to do with the people flow. And I think where the question really would go is it's pretty clear already that we will not have as many people in any one office as before. So the trend as you know we talked about over the past year has to have much higher density of people in every office building.

Clearly that had gone a little bit too far. So we're probably going to reverse on that that have slightly different type of office spaces that needs more space. But you're going to have more mixed working with more work from home. Where does that equilibrium go? That's what people are trying to figure out. And I think we have to wait a little bit to see that.

Andre Kukhnin: Great. Thank you for that, Henrik.

Henrik Ehrnrooth: Thank you.

Operator: We'll take another question from Lucie Carrier with Morgan Stanley.

Lucie Carrier: Thanks for the follow-up. Just one question, please, if I may. Are you – so at the level of the company, roughly about half of the business is OE and about half of the business is – sorry, services and same thing on resi, non-resi. Can you maybe help us to understand, if we look solely at the commercial exposure how much would be OE and how much would be services?

Ilkka Hara: I don't have it in the top of my head.

Henrik Ehrnrooth: I don't have that –

Ilkka Hara: I think – yeah, you say that the overall revenue split we've shared, but not on the business. I'm not sure maintenance is that much different into it.

Henrik Ehrnrooth: Yeah, probably not.

Ilkka Hara: Yeah.

Henrik Ehrnrooth: But I think, Sanna and the team can follow-up with you on that.

Ilkka Hara: Yeah.

Lucie Carrier: Okay. So you would think actually that there's as much maintenance plan in your residential building than, let's say, an office space in terms of value for your portfolio?

Henrik Ehrnrooth: So I didn't – I don't know if I understand your question now.

Lucie Carrier: Well, I guess I'm trying to understand is, if we look at your residential business and if we look at your non-residential business or your commercial business, I'm wondering if in commercial your share of revenue is equally split between OE and service, or whether service has a higher share in commercial than it has in residential?

Henrik Ehrnrooth: Probably somewhat. But I always intuited somewhat, but I don't think there's a massive difference, frankly.

Ilkka Hara: I would have to agree.

Henrik Ehrnrooth: Yeah. Okay? Thank you.

Operator: And as a reminder, that is star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. And it appears we have no further questions. I'd like to turn the conference back to our speakers for any additional or closing remarks.

Henrik Ehrnrooth: Thank you all. I think we hand over to Sanna then next.

Sanna Kaje: Many thanks for your active participation again. I would like to still remind everyone that we will have our 2020 Capital Markets Day on 29th September. It will be in virtual format. So hopefully many of you will be able to join, at least, there won't be any flying around. But with that, thank you again, and have a nice weekend.

Operator: And that does conclude today's conference. We thank you for your participation. You may now disconnect.