KONE Q4 2019: Annual Review 2019

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Sanna Kaje: Good afternoon, and welcome to KONE's Q4 and Full Year 2019 Results Presentation. My name is Sanna Kaje, and I'm the Head of Investor Relations. As usual, I have here with me our President and CEO, Henrik Ehrnrooth, and CFO, Ilkka Hara. Henrik, please?

Henrik Ehrnrooth: Thank you, Sanna. And also a warm welcome on my behalf and I am very happy to be able to present, again, good progress for KONE during the year 2019.

If you look at how our year finished last year in Q4, we had a continued good growth in all regions and all businesses. So, the great sales growth that we had in beginning of the year continued, that I'm very happy about. Also, we had a clear profitable growth. Our adjusted EBIT margins improved clearly now again in Q4. And we also had a very important milestone in that we launched a really groundbreaking new era, I would say, in our industry with the launch of our DX Class elevators.

And the final highlight is that our Board of Directors have today made a proposal to the Annual General Meeting that for last year we would pay a dividend of €1.70 for a class B share.

As usual, I'll start with the key financial figures, some highlights for the fourth quarter and last year, as well as the market outlook. And then I will hand over to Ilkka Hara to dive a little bit deeper into our financial performance. And then, finally I'll talk about the outlook for this year.

So, let's start with Q4. We had solid sales growth and our margins improved. Our orders received were solid €2 billion, growth of 2.6%, or 0.7% in comparable currencies. Our order book is also strong at over €8 billion, about flat year-over-year. And our sales reached €2,685 million, growth of 9.9%; or if you look at comparable currency, it's 7.9%. I would again say that if you look at the economic environment, I believe this is a good growth.

Operating income grew by almost 22% to €356 million. And our key financial metric, our adjusted EBIT, grew by 15% to €367.5 million. And also, the margin improved from 13.1% to 13.7%. So, clear profitable growth now in the fourth quarter.

In the beginning of the year, we have had very strong cash flow and that continued also at the end of the year. Very strong cash conversion, €386 million in total, good growth year-over-year. One quarter is always a very short period of time and now we have a full year to look at our progress. And we can see that we have made progress during the year.

Our orders received grew nicely to €8.4 billion, growth of 5.9% in comparable currencies. And again, I believe if you look at the environment overall in the world, this is a good growth. Our sales were just short of €10 billion, growth of 10% in comparable currencies, a very strong 8.2%.

Operating income reached €1,192 million. And the adjusted EBIT grew by 11.3% to €1,237 million. The margin improved slightly from 12.3% to 12.4%. And so, I think all remember, our margin in the first half of the year still declined slightly, but now in the second half of the year we had clear improvement. So, overall a pretty good outcome I would say.

Cash flow, a very strong €1.5 billion. And our earnings per share €1.8 compared to €1.63 the year before. We all know that our development activity at KONE during the past years has been very active. We've been executing on our Winning with Customers strategy. We've been executing on our Accelerate Program. And I would say that I'm very happy about the commitment, motivation and forward-looking drive of KONE's employees.

We can see that in a period of change, they have continued to focus on our customers. We have continued to focus on looking forward and driving a positive change, and that I'm very pleased about; and I think all of our employees have done again a great job to take the company forward. That I'm very happy about.

Then a few highlights for 2019. We can see that the focus on delivering value to our customers and investing in differentiation is delivering results and we can very concretely see this from the fact that the average value of our service contracts has now, in the past couple of years, turned to growth from actually a slight decline in – for a very long period of time before that. So, we can see that the value you're delivering to your customers is improving.

And the same thing is also happening now in our new equipment business. And, of course, it's all about the service mindset. It's about the new service and solutions. And it's our reputation as a reliable partner. And I think that that is absolutely critical. When we look at feedback from our customers, the fact that we are seen as a reliable and reputable partner is very important to our customers.

Important highlight also now in the last quarter was the opening of our new factory in Chennai that really gives us great opportunities to continue our strong progress in India. If you look at India over a longer term, we can see that that has really the best opportunities from an urbanization perspective. And therefore, this new factory, which is really world-class, is enabling strong development and strong growth for the future for us.

And a final highlight I wanted to bring up is that we know that KONE we have had a strong focus on sustainability. That has been one of our five strategic targets already for many, many years and we know that we have the most energy-efficient elevators in the market, which are, of course, helps our customers reduce their energy consumption.

I'm also very pleased that we have again got very strong recognition for our work towards sustainability. As the only company in our industry, we have a CDP A rating for climate change. No other company in our industry is on the CDP A list.

Also, Corporate Knights every year publishes their list of World's 100 Most Sustainable Companies. Again, that's the only company in our industry. We are on that list at number 32. So, again, these are external recognitions while at KONE we always look very pragmatically at what we do. Of course, external recognitions like this gives us again motivation to continue our work and continue to be a leader in sustainability.

Then a few business metrics for last year. In total, last year we booked orders for 173,000 new elevators and escalators and we could see that the average value, as I mentioned, grew a bit. Our maintenance base increased by 5%, and we had higher growth in monetary value and a total service business grew at 7%, so continued good growth overall.

Perhaps the most exciting development though during the fourth quarter was the launch of our DX Class elevators. This is a totally new era for elevators in our industry. It's a new era because it's a solution that is upgradable throughout the lifecycle of a building through software.

So, what is special with these elevators? These are the first elevators in the industry that comes with connectivity built-in. You can say why is that special? Well, it's special because we can automatically – once you have a DX class elevator, when a customer's needs change or we come out with a new service, our customers can automatically start subscribing for this new service. We can activate it remotely through our digital platform.

We are talking at both KONE Services as well as third-party services that can be activated for our customers. For example, our 24/7 Connected Services, we can now automatically activate when our customers want to take them into use, but we can also take into use third-party services. We have some examples such as a company called BlindSquare provides services for visually impaired people, how they can navigate through buildings or we can activate services for robotics delivery companies in buildings can via APIs move through the building. These are just some examples. And as new services come, or our customers need change, we can bring new services online.

These elevators also bring a totally new user experience that is customizable. It's multi-sensory through design, through lights. And, actually, we can even change the moods during the day or the season of the building or whatever our customers wanted to have. But also have a lot of smart materials – anti-stain, anti-scratch, and of course now very what we call anti-bacterial surface materials with a whole new design and lighting selection.

But that's not all. Also these are something that we can be a much better partner for smarter buildings. The planning tools really next generation makes it much easier for architects, planners, how they can utilize KONE's elevators in their buildings. But also we can support smarter projects and project management, as well as better connectivity in the smart building systems. So, it's not only a new product. It's a whole new system that we are bringing to our customers that we can keep modern throughout the life cycle even when needs and requirements for a customer's change.

So, again, delivering on our promise through digital solutions to bring outcomes that meets the individual needs of our customers, again, a big step in that direction. Because of the good development, we have had and we can see the solid outlook we have for the future, our Board of Directors has proposed to increase our dividend to €1.70 per share. That continues our strong dividend payout now 94% earnings from – of our earnings per share and it's equivalent to a dividend yield of 2.9% if we compare it to the share price at the end of the year.

So, that is KONE's development and some of our highlights. If we then talk shortly about the markets. New capital markets in the last quarter grew slightly. North America stable at a good level; Europe, Middle East and Africa, a lot of variation within the market but overall slight growth; and Asia-Pacific also a lot of variation between the market but growth driven by China and some markets in Southeast Asia. India now pretty stable. But overall slight growth.

In the service markets, very much the same trends we've seen before. North America growing both in maintenance and modernization slightly. Exactly the same trends in Europe and Middle East and Africa. And in services Asia Pacific continues to be a very strong market for growth in both maintenance and particularly modernization. There, we can see that Chinese modernization markets are really starting to pick up in a very nice way.

So, what about China? Chinese property markets in the fourth quarter in units ordered they were slightly up year-on-year. And also, we have seen now a more stable pricing environment during fourth quarter but largely during last year, of course, after many years of very tight pricing environment there.

Overall, government has continued to support the economic activity through the infrastructure market that we know. So, therefore metros, railway lines have been very active, and of course the markets in those segments for us. However, there continues to be restrictions in virtually all of the 100 largest cities.

And we can see that the reason for these restrictions is to make sure that markets stay stable and don't grow too fast. The construction activity is at the good level and also what has helped is the liquidity situation for large developers have clearly improved towards the end of the year. You may remember beginning of the year that was clearly a challenge to growth for developers but we've seen an easing of liquidity and also better access to bond market for many of the large developers.

Real estate investments up about 7.3% to December last year. And while residential sales volumes are pretty flat, we could see that new starts up 8.3%, which of course bodes well for the future. And new home price is up about – 87 of the largest cities about 6.8% in December. So, we can see that the government policy of keeping a moderate growth in sales prices has been quite successful again.

A feature that we've talked a lot about is consolidation amongst the top property developers. That continues and we can see that the top 100 developers, they already represent roughly 50% of all construction market by area and it's starting the approach three quarters in terms of value. So, really strong the consolidation. But I think we are, I don't think – I know we are in a pretty good position here.

So, that is about KONE's performance in summary, are some our highlights in our markets. And with, I'd like to hand over to Ilkka to dive little bit deeper into our financial performance.

Ilkka Hara: Very good. Thank you, Henrik. And also a warm welcome on my behalf to this fourth quarter result announcement webcast.

I'll go through our financials more in detail. And starting with orders received, where we see as in all of our financials, actually the positive development continuing in the fourth quarter of our – of the year. Orders received reached €1,988 million, which represents 2.6% growth in the quarter, and as total for the year 7.7% growth.

We continue to see a clear growth in the volume business. However, in the major project business it was – there's less growth in the fourth quarter. There's always fluctuations in the major project side. But overall on a comparable currency basis, our orders have received grew 0.7% in the quarter.

If we look at the large Chinese market, our orders in units were slightly down. However, if we look at value, we saw clear growth in our orders received from a monetary value perspective. Both pricing contributed positively as well as mix to that development. So, good development also in the Chinese market. We've been focusing on the pricing and that's visible also in our development there.

Also when it comes to pricing, we continue to see in the fourth quarter, the margin of our orders received improving slightly. So, we continued to see the pricing work that we have been doing contributing positively also to our orders received margin, good development there.

Then if we look at sales, our sales for the quarter reached €2,685 million, up 9.9% compared to last year, and for the full year that represents 10% growth for the sales. We continued to see strong sales growth in all businesses and growth in comparable currencies was 7.9% for the quarter. If we look at from a geographical perspective, the strongest growth in the quarter was in Americas at 12.7%, EMEA grew 8% and Asia Pacific grew 5.4%. The China growth was clearly higher than that; then rest of the Asia Pacific grew less.

From a business perspective, modernization grew the fastest. So, 9.5% growth in our modernization business. New equipment grew at 8.7%. And if we look at the maintenance business, we continue to see a good growth at 6% for the quarter.

Then looking at our adjusted EBIT, where we continue to see strong profitable growth for the business. Our adjusted EBIT reached €367 million, which is up 15% compared to last year's fourth quarter. And also, more importantly, we continue to see our EBIT – adjusted EBIT margin continuing to improve, reaching 13.7%, so a 60 basis point improvement compared to last year as we saw also in the third quarter, so continued good performance there.

Growth had a positive contribution to our profits, but also, as said, profitability improved and currencies had an €8 million impact to our profits. If we look at the Accelerate Program, the cost related to the program, the restructuring costs were €11 million in fourth quarter. And if we look at the whole year now that we're at the end of 2019, we saw more than €50 million of savings from the Accelerate Program. So, not only are we seen out of the three targets been more – been able to be more customer-centric, improving the speed of rolling out our new service and solutions but also the efficiency is coming through as we expected now that we're in the last year of the program for that.

Then lastly, cash flows. So, maybe to me this is the highlight of our results for 2019. Our cash flow rates €1,550 million. And our cash conversion continues to be strong throughout the year. Net working capital contributed positively and we continued to see the strong development in our advances received as well as progress payments from our customers.

It's good to note that IFRS 16 Accounting Standards had a positive impact of €119 million to our cash flow; but regardless of that, the development was strong in the end 2019, and that continued in the fourth quarter as well.

With that, I'll hand over back to Henrik to go through market and business outlook for 2020.

Henrik Ehrnrooth: Thank you, Ilkka. So, that's of course about history. Now it's about looking forward. So, that's what we like to do. 2019 is now in the bag and now it's about how we deliver another strong year for KONE in the year 2020.

Let's start with the markets. We expect that new equipment markets will be relatively stable or grow slightly in 2020. However, the Coronavirus outbreak creates a clear uncertainty to this outlook.

In China, we expect the markets to be relatively stable or grow slightly. And of course, this is the market where we have the most uncertainty because of the virus outbreak. For the rest of Asia Pacific, we expect the markets to grow slightly. India return to growth and a growth in Southeast Asia.

New equipment markets in North America, Europe, Middle East and Africa are expected to be rather stable but at a good level. In maintenance, very much same trends we've seen so far, growth in all markets, slight growth in Europe and North America and a strong growth in – or good growth in Asia Pacific.

And in modernization, same thing here, slight growth in North America, Europe, Middle East and Africa but strong growth in Asia Pacific to continue. So, that's about the markets. And then our outlook. We expect our sales to grow by 0-6% in comparable currencies compared to 2009 and we expect our EBIT to be in the range of a €1,250 million to €1.4 billion. And then we expect currencies to remain about to the same level where they are today. If that happens we can have positive impact of maybe €15-ish million.

We continue to have many drivers that are boosting our results such as the improved margin of our orders received that we had in 2019. It's the fact that our service business continued to develop nicely and grow and also the Accelerate Program continues to contribute. However, there are also, as always, some matters that are burning our results, such as labor and subcontracting cost increases both in Europe and in Asia, but partly also in North America.

But also the fact that we are constantly investing more in our capability to sell and deliver new digital services and solutions but as whole how we're building up that capability and systems within KONE. But that's of course a positive investment in my view because we can see a very good payback for that.

And then what's burning our result is the outbreak of the Coronavirus. So, what do we know about the Coronavirus and the impact for KONE? First of all, we have two principal objectives at KONE when it comes to dealing with this situation. First, naturally the health and welfare of our employees. We have about 20,000 employees in China. So, that is our first priority.

But clearly also a priority to make sure that we can continue to serve our customers in this situation. We have a lot of hospitals and other similar buildings that we are servicing. They are, of course, critical that they continue to work. So, we are, of course, giving instructions helping our people locally how to deal with this to stay healthy and safe.

If you look at the impact, that is still unclear but we already know now that there will be an impact on our business in the first quarter of the year. For example, in Kunshan and Nanxun where we have our two factories in China, we know that in those cities and those areas that the Chinese New Year Holiday have been extended by one week. So, we had planned to reopen our production on 31st January following the Chinese New Year break. But we know in those areas now holiday has been extended by a week and the earliest we can start is on the 8th or 9th February. So, we are losing at least one week of output.

We also don't know exactly yet when our customers' installation sites will reopen. So, if this is the full impact that it's a week delay, we believe that there would be an impact in the first quarter but we can probably recuperate much of that rest of the year. However, the situation develops very rapidly, so we don't know what the impacts will be eventually and how customer sites will reopen and so forth. But this is what we know at the moment. So, we are, of course, dealing with the situation and making sure that we can serve our customers and support our people there.

So, in summary, our strategic execution is very well on track. We can see from our development that our competitiveness is strong. We can see that the value per service contract, the value and average price for new equipment is improving. That is a message from customers that we're delivering value to them, that I'm very happy about. We expect to continue our profitable growth in 2020. That is what our outlook says and that we very strongly believe in. And we will continue to invest in renewing ourselves to constantly be able to deliver better and better outcomes to our customers to drive even further differentiation.

So, with that, I'm very happy to open the lines for questions.

Sanna Kaje: Yes. So, let's start taking questions from the telephone line. Operator, please?

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question on today's call, please signal by pressing star one on your telephone keypad. If you are using a VoIP phone, you might have to enable touchtone signals pressing send DFMT button on your device before dialing star one. Once again, star one to ask a question. We'll take our first question from Guill Peigneux of UBS. Please go ahead. Mr Guill your line is now open. If you're using the mute button, please depress it.

Guillermo Peigneux: Can you hear me?

Operator: Yes, go ahead.

Guillermo Peigneux: So, I was saying that sorry to hear about the impact from the Coronavirus in China. I wish everyone is safe and that no one is impacted by this Corona anywhere. But anyway, going into the questions that I had, it relates most to pricing and it relates to tender activity at the moment in the market. We've been hearing that some local players are deciding now to become a bit more aggressive on pricing despite the fact that in the past western brands probably were more price leaders within the market. Is that something that should be concerning for the Chinese market in 2020, i.e., pricing becoming – as the market slows down pricing becoming a bit tougher as we go forward?

Henrik Ehrnrooth: I cannot predict how pricing will be going forward and we usually we don't comment on pricing going forward. I can talk about what's happened historically. I mean, as always, there are different strategies between different players and we all have different phases. So, I wouldn't say that there's been a marked difference. Clearly always someone have more growth ambitions than others as we also do, of course, have growth ambitions in the market.

What we've experienced now over the past year is that pricing has stabilized. And I believe that the reason for that is that many of the players in China, actually margin start to be quite low for many players and that usually gives a floor. We continue to have good margins given our competitiveness in the market. So, I'm not expecting at least in short-term any major difference and we haven't seen any significant changes.

Maybe there's been some individual companies have grown very, very fast. But that's of course if you grow fast, there are many reasons for that.

Guillermo Peigneux: Thank you. With regards to the Southern European aftermarket operations, would you also comment on the competitive landscape there, especially I think in the context of the new innovation and software launches? Would you say that this prevents competition entering into the elevator market to the extent that it was in the past?

Henrik Ehrnrooth: I would say that we have, of course, we continue to have strong competition in the elevator market. I think you always have innovations that come in the industry. We are, as always, driving a lot of innovation in the market. But as you know, you come with a new solution. You always have competitors very close by or competitors come with new solutions and you think about how do you react, how do you make something that creates even more value.

So, I think that the competitive dynamics are definitely there and there will always be different ways for the companies to compete. So, I'm not seeing a big change to what we've seen so far.

Guillermo Peigneux: All right. Thank you very much.

Operator: Thank you. We'll now take our next question –

Henrik Ehrnrooth: Guillermo, to your point, I mean, what is our objective. We continue to invest in innovation. We continue to find new ways of adding value to our customers. And that's what we are all the time. And that is how we can continue to improve the value we deliver to our customers.

Guillermo Peigneux: Thank you.

Operator: Thank you. We'll now take our next question from Lucie Carrier of Morgan Stanley. Please go ahead.

Lucie Carrier: Hi. Good afternoon gentlemen. Thanks for taking my question. I will try to limit myself to three and I will go one at a time. The first one was on the guidance. I understand, of course, you're ending the year with a backlog which is about flat. But when we look at the bottom end of the guidance for top line and for EBIT, it looks like basically you – at the lower end, you wouldn't be expecting any margin expansion or whatsoever in 2020. And considering a better margin in the order books, considering probably less adverse effects from raw material and the FX benefits, I was wondering if you could maybe kind of quantify to some extent some of the other headwinds that you see and that pushes you maybe to kind of guide in this way.

Henrik Ehrnrooth: But we haven't – as you know, we haven't guided margin. I mean, as I mentioned at the end, what we do expect is to continue to grow profitably in the year 2020. What I would say is that if you are at the lower end of the guidance – and of course a little bit more uncertainty in the market, that's why we have a little bit broader guidance range than usual at the moment. I would say that of course you have less leverage in the company than just because you always have costs that are growing anyway. So, I think always the more you grow, the more you get also leverage and have ability to expand margins. But our expectation and our target for this year clearly is to grow profitably.

Lucie Carrier: Thank you very much. My second question actually were alluding to that around the leverage. If I kind of look at it, I was wondering if there's any structural change in either your operations, the way you operate, the cost structure because the drop-through doesn't seem really to be picking up versus what I would call pervious level, historical level even though this year you've had an absolutely remarkable organic growth and the drop-through seems actually pretty limited if we look at it on a full-year basis. So, is there any change around the dynamics there that explain that the leverage is now much, much lower than what it used to be even though in period of high growth?

Henrik Ehrnrooth: Ilkka, do you want to start, I can then –

Ilkka Hara: Yes. Well maybe I start. So, first we discussed this drop-through in previous calls and meetings as well. And there's always fluctuations quarter-by-quarter there. So, it's not that easy in real life. But if you look at the margins and see the developments –

Lucie Carrier: Sorry, I meant for the full year on the leverage not just for the quarter.

Ilkka Hara: Yes, I hear you. But if you look at the development in our margin, so clearly in the second half of the year we started to see a more positive development from a margin perspective and it was more challenging in the first half. We start to see both positive impact coming through first from a combination of pricing versus raw materials having an impact. And also, we start to see more of the savings coming through. From a drop-through point of view, there's always country and business line mix, which is clouding it a bit. But clearly from a margin expansion point of view, we're going towards the right direction as such.

Henrik Ehrnrooth: I think just to build on that, if you go back, Lucie, I can't remember now exactly how many quarters. We have now few quarters we've said that our orders received have improved, and before that it was stable and before that they were declining. So, clearly, it's really what's coming through our order book now are the first stable margins in the orders received, which has helped us and leverage improve our margins now during the second half.

And now what we're saying in our outlook is what's helping our margins in this year is of course are the better orders received margins that we have booked during last – particularly during second half of last year.

Lucie Carrier: But does that imply because historically a lot of the margin momentum or the positive mix across the group was also driven by the fact that China was more – above average I would say profitability. China was particularly strong this year from a service standpoint. So, does that suggest that from a mix standpoint when you say there is differences in terms of country mix or business variation that China is maybe not as favorable as what it used to be?

Ilkka Hara: So, if I look at the past, remember the times before 2015-‘16, clearly we were at the higher level in pricing and that has impacted margins as well. It continues to be above the group but not as much as it used to be in the past. So, that’s part of the answer.

Henrik Ehrnrooth: Yes. But it’s – I mean clearly as you know, Lucie, that in the past year, so I mean we continued to have good margins in China but we were slightly above group average. But if we go back four years, five years, our margins were clearly higher than group average. So, clearly that – those years we came down in margin as China. We continued at really good level what we used to be at an excellent level there.

Lucie Carrier: Understood. And just my last question on China then, if I may. What do you hear in terms of the conversation in the market, which is we have seen of course infrastructure being boosted on the back of all of the concern on trade tension. Now the trade tension, I wouldn’t say that they have disappeared but they have such a new an established with the deal. Is there a concern maybe that some of the stimulus from infrastructure and some of, I wouldn’t say stimulus on the property or residential property, but clearly we had seen some loosening of restriction in some cities – is there a concern that now that the trade tension have stabilized – you might have a bit less of a tailwind here in terms of governmental policies?

Henrik Ehrnrooth: I think we have to see how governmental policy evolves. I’m not going to speculate what decisions they may or may not take there. I would say that the outlook we have at the moment seems that there continues to be very high activity on the infrastructure side. So, I believe it could be another active year in that market, maybe not as far as growth as last year but at least a good level.

And what we can see what is the difference between now and perhaps a year ago is the overall liquidity situation for developers. It is better both from ability to issue bonds and also general market liquidity. So, there are few things that are maybe better, a few things little bit worse but overall except if there is a more prolonged impact from the Coronavirus, we expect the market to be stable or could even slightly grow.

Lucie Carrier: Thank you, very much.

Operator: Thank you. Ladies and gentlemen, if you find that your questions have been answered, you may remove yourself from the queue by pressing star two. And as a reminder, it is star one to ask a question. We'll now take our next question from Andre Kukhnin of Credit Suisse. Please go ahead.

Andre Kukhnin: Good afternoon. Thanks so much for taking my questions. I will go one at a time as well. Can we talk about the 0-6% guidance first just to understand how much is kind of the Coronavirus effect in that? I don't know if you can answer by telling us what it would have been had it not broken out while you were coming up with the guidance? And what is the line of thinking there for the new equipment part of the business given that maintenance and modernization pieces, I think, are kind of largely underwritten for the year I'd dare to say? So, if you could maybe start talking about that, that would be great.

Henrik Ehrnrooth: Well, I won't speculate what guidance may or may haven't been in other situations. We always give guidance based on what our business and what the environment looks like. But if you look at the first quarter, as I mentioned, we believe there will be an impact. It's a little bit too early still to estimate that exactly because for example we don't know exactly when customer sites will reopen, will there be a delay to that or not.

If there's only one week, then as I mentioned, it will be an impact in first quarter not the rest of the year. If it's prolonged, it could be a longer impact. But we are talking about a couple of tens of millions on the result side, the impact from here.

Andre Kukhnin: At EBIT level I presume.

Henrik Ehrnrooth Andre, that number can fluctuate still a fair bit based on the – how long it will take and that's what we know now at the very early stage.

Ilkka Hara: That's mainly a comment on the impact on first quarter. First of all, for the full year, we assume that there's very little visibility for the full year

Henrik Ehrnrooth: Yeah.

Andre Kukhnin: Right. No, I appreciate that and, obviously, it's extreme uncertainty and the extreme sad development. This is when we look at your business predictability in the past and moving look back to '09 for example when your backlog did shrink and your orders were down double digits. Following year, you generated 1% growth. I know there was a few factors there that really helped. But it just seems interesting to find out what's kind of underlying the lower end of your guidance range in terms of micro assumptions so that we can compare it to kind of our own.

Ilkka Hara: Henrik, if you want to?

Henrik Ehrnrooth: Well, I think the only thing which I would highlight if you think about our sales guidance from 0-6% is that what has been something which has been a strength in 2019 where we see very strong deliveries in China. So, actually our order book rotation has increased a bit in China and that's something where we see then strong sales in 2019. For 2020, we don't assume that that will change but it will mean that we have less visibility than we'd had in the past, which is something a bit of a change compared to the past.

Andre Kukhnin: Got it. Thank you. I appreciate it. And on – the other question I had was on the comment you made on contract prices or unit prices increasing across new equipment and service globally. I wondered if you could talk more about that in services, is the digital services effect that is adding to it or the new KONE Care and the comment on new equipment prices or ASPs increasing is quite interesting. We kind of thought about that specifically for China, but it seems to be now broader development. So, I wonder if you could give us more color on that, please?

Henrik Ehrnrooth: So, when we look at – of course, when you look at the whole service portfolio, when we look at the average prices per service contract, Of course, those change is always very, very small because you have a large portfolio behind it. I think the key message is that if we look at the history, we always had a very slight decline year-over-year because of mix and because of many different reasons.

Now actually we've seen – we've been able to turn that in the past couple of years. And I think that's an important achievement. And why have we done that? Of course, it's all of the things you talked about. It's making sure that we serve our customers really well, we have our new KONE Care, we have our 24/7 Connected Services, all of these contribute to it.

And as I said, the changes are – if you look at the whole portfolio very small but it's still the direction is the right one and that is what gives us confidence that what we're doing is really taking us in the right direction. Clearly also on new equipment, as you know in many countries, costs, particularly in installation in many – in the Western world, installation is a very significant part of the cost, has increased a lot. But despite that, we've been able to slightly increase margins and that means that prices have gone up and we have been able to demonstrate to our customers the value that we deliver. And I think that is always really where the proof is, so you get a premium for your service and solutions or not.

Andre Kukhnin: Got it. Thank you. And the last question I had is on the new product offering that you launched in December, the DX range, how kind of substantial is this in the context of overall

KONE offers? And does it span your kind of entire elevator product offering or is this specific to certain segment? And does it come with any degree of additional investment that you expect to incur in 2020?

Henrik Ehrnrooth: So, it spans both our MonoSpace and MiniSpace ranges. So, really you can say it's the volume offering that it covers at the moment which is of course the biggest part of what we sell. We're starting in Europe. We will start with some Asian countries later this year and then bring it across the world. And I believe it's actually very substantially. It brings a totally new flexibility and ability for our customers to upgrade as their needs change or as they feel that they need better or more services. So, it is really in that sense a total new era that we bring really the elevator world into the digital era. So, that I'm very, very excited about.

Of course, when you launch something like this, you have quite a lot of investments that's partly what I talked about to sell a system and outcome like this is different than selling a product. So, we're investing a lot in training and developing our people. We're investing more in many areas to be able to deliver this. And that is what I talked about some additional costs. But we can see already what we've done and in the countries pretty earlier with this is that is an investment that I think has a very, very good payback, so happy about those type of investments.

Andre Kukhnin: Thank you. And if I may just follow-up on this, again to just – for us to be able to scale the degree of innovation in this new offer, would this be comparable to say your last product refresh when – I recall you did that when your existing offer was already quite invested but you decided to push with the new level – or is this kind of a substantial as maybe the machine roomless elevator that we can have with, or is this just more of a kind of facelift add on?

Henrik Ehrnrooth: I think it's more than a – it's absolutely more than a facelift. And as I said, it brings now an ability to bring individual outcomes to our customers. And this is what we will sell from here on. So, it's definitely much more than a facelift. It's more of a digital innovation rather than mechanical innovation which the MonoSpace was – whole set up and the whole system back then.

So, I believe that this is an important innovation which again going to help our competitiveness and be able to drive a premium. And we can see that even before this launch our competition was good. If you look at our growths if you look at our pricing which we have achieved with our current before this offering, we have been in good shape.

But that is what we need to do constantly. You need to constantly bring in out new generations to stay ahead because we have some very tough competitors out there who are not standing still. And therefore, we are not standing still and we are moving forward all the time.

Andre Kukhnin: Great. Thank you very much, Henrik and Ilkka.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.

Operator: Thank you. We'll now take our next question from James Moore of Redburn. Please go ahead.

James Moore: Yes. Hi everyone, Henrik, Ilkka, Sanna. I've got a few questions and I'll go one at a time as well, if I can. Starting with Accelerate, I think you've talked about €40 million of restructuring for 2020. I think you've done €128 million, so that's now a €168 million in total when originally talked about €100 million. Is it fair to say you've delivered €60 million of savings so far with €10 million in '18, €50 million in '19 and now we have another €50 million in 2020, so €110 million in total? Or is it that there are more savings that this will drive that will drop in 2021? So, I just would like to get the scope of savings the existing. And longer term should we see any restructuring charges of €40 million a year? Is this the new normal?

Ilkka Hara: Well, maybe I'll start. So, first this is the last year of Accelerate. So, the program as such will stop at end of 2020. And as said so, we are making good progress in the whole program and we are seeing savings. If I look at where we are at the end of 2019, so we were cumulatively round about €75 million of savings from the program and expect to get continued good savings of about €50 million in 2020. And like you said, so the total cost for the program are estimated to be a bit more than €150 million at the end of 2020.

James Moore: And nothing drops into '21 for the savings?

Henrik Ehrnrooth: Well, since we have some cost that we incur in 2020 that those bring benefits also into 2021. I think that's pretty clear. So, I think both costs and benefits may be a little bit more than we originally expected but I think overall therefore the ratio roughly one-to-one is pretty much intact.

Will this be ongoing? I think our commitment is this is the last year we have this program. And I think in this world you need to do constant renew on restructuring as we all have done. So, I can't estimate what an ongoing is, but this program will end at the end of this year.

James Moore: Very helpful. And on new digital solutions and services, you were hopeful in saying that could be a bit of a drag on profit this year. I was a bit confused of what you were saying on the service margin that service margins fell for sometime but are now up with digital. I wondered if you could help us with some numbers on what the collective revenue and revenue growth was for KONE Care and 24/7 in the full year of 2019. You talked about one being a bit above 5% of maintenance, one being a bit below in the past. But have we exceeded 10% of maintenance sales yet on those two, which would be €320 billion of revenue? And whatever the EBIT loss was in ’19, could you scale them? I’m trying to understand whether the loss in ‘20 you’re trying to signal will be a bigger loss than that in ‘19 or still a loss but less of loss. I understand you’re in investment mode for something that’s going very excitingly. But just like to try and size the picture.

Henrik Ehrnrooth: Okay. Well, first let me clarify a few questions. I think there were many things in your question that I didn’t say that margins have been declining. I said that the average – if you look at total portfolio of KONE, the average contract revenue per unit had historically been slightly sliding down; and partly was mixed because of more in Asia and so forth rather than US and Europe. And, of course, then in South Europe a very tough pricing environment.

I think that is what we’ve been able to turn. That doesn’t mean that margins have been down. We could still have with productivity have delivered a better margin. Then 24/7 Connected Services and new KONE Care, we are in both less than 10% penetration. But with new KONE Care, it’s actually growing very nicely. But you use that, you change your contract when you either renegotiate contract or you convert.

And what we do in Europe, the new contracts, that is where we sign on this contract. We are not proactively going and change existing contracts that where a customer is happy to this new way. So, that’s why there it takes time for that. But it’s actually growing very nicely and at the pace we had expected. It’s still – in Europe, it probably has over 10% penetration today but not globally because we really started in Europe.

24/7 Connected Services, we have a penetration. And here we look at what we have commercially sold as a service to our customers about 5% penetration of our service base. It’s clear that we then have a much broader base of connected units, that’s over 300,000. But when we talk about 24/7 Connected Services, the penetration we talk specifically about that specific service and how much we have sold as a commercial service to our customers.

James Moore: And in terms of the impact on EBIT, is it a significant negative and does that negative, does it get worse before it gets better?

Henrik Ehrnrooth: I would say that if you look at specifically 24/7 Connected Services, we're probably pretty breakeven on that at the moment. But then of course we have many, many new things that are coming and many, many new things the capabilities we are building up. So, therefore it's a slight headwind. But I still think when we look at that as an example, we can see that you do get payback pretty quickly.

James Moore: And lastly, if I could. There've been lots of press stories and I understand you're probably be able to say almost a zero, maybe even zero. But could you confirm that KONE is still in the running for the elevator consolidation with the private equity partner that's been discussed? And if so, could you give us any indication on a timetable on when the bidding rounds that are reported to be in a second bidding round may finish and when we may or may not learn some more?

Henrik Ehrnrooth: Well, as we very clearly said before, we don't comment on speculations or rumors in this and who we may or may not work with. What I can confirm is that we continue to be very interested in the asset. We think that we are objectively a very good partner and we are a good buyer for that asset, given the complimentary footprint that we have, given how we could scale digital services with an enlarged group and also the synergies we could create.

So, we continue to be very interested. We then have to see how this process goes forward. I can't – I'm not going to comment on any timetable that you have to – and what whatever decisions ThyssenKrupp may do. They, of course, talked about multiple different alternatives that they have. So, they have to make – clearly, they have to make their decisions and they're in charge of process. So, I'm not going to comment any more on a timetable.

James Moore: That's very helpful. Thank you.

Operator: Thank you. We'll now take our next question from Daniela Costa of Goldman Sachs. Please go ahead.

Daniela Costa: Thank you. I just wanted to ask on two things to round up maybe some of the commentary. On the commentary on your investments in more technology and digital and some of the initiatives that you've been talking about. When you mean that you're going to continue to invest, do you mean R&D to sales will keep step – will step up from here or that we just sort of have reached a run rate of R&D to sales to consider going forward?

And then I wanted to ask on raw materials. I might have missed but I didn't hear any comments regarding that. And I guess even some of the evolution on steel prices, why would we not be seeing a tailwind in 2020 from raw materials? Thank you.

Henrik Ehrnrooth: Thank you. Maybe do you want to start?

Ilkka Hara: Yeah, I'll start and maybe you will add. So, your question first, so we talked about previously on the R&D but that actually we see more stable as a percentage of sales. So, there's some absolute growth but as a percentage of sales they are similar in 2020 than we've seen in 2019.

When we talked about the investments to digital, it's more about go to market than selling capabilities and training our people to have those future capabilities to enable it. So, it's a bit two different things.

And then when it comes to raw material question. So, we are seeing raw materials at this stage for 2020 more neutral, so not a tailwind or headwind. If we look at where the prices are and where we have better visibilities in the first half, so it's more neutral. Maybe there's a potential for seeing more increases in latter part of the year. But let's see how the prices develop in that one but so far, it's more neutral for 2020.

Henrik Ehrnrooth: I think as Ilkka mentioned, this R&D and I think to be completely frank here, our R&D expenditure doesn't capture everything we invested in digital. So, we probably have to look at that in the future because when you think about digital, there's part – and R&D part of that – but as Ilkka mentioned as well, there's a huge part of building capabilities, building ways of working and all of that. And that is as substantial as anything you do on technique and technology side. And that is not captured in our R&D expenditure per se. So, that's why we are calling it out separately.

Daniela Costa: Thank you.

Operator: Thank you. We'll now take our next question from Klas Bergelind of Citi. Please go ahead.

Klas Bergelind: Yes. Hi, Henrik and Ilkka. It's Klas from Citi. So, on the operational gearing, so obviously one difference this time I would have thought is the higher cost inflation looking at contractors and the investments in digital. So, a question on this please. Sales growth in the quarter solid at 8%. Margin is now up 60 basis points, similar magnitude as in the third quarter. Could we talk about the different components a bit more? It feels like the cost side was worst and you perhaps saw at the medium stage in the quarter, Ilkka. What was the wage inflation year-over-year and the cost of contracting? And how much on top of this annualized should we expect for 2020?

Ilkka Hara: For 2019, so if we look at the last half, I wouldn't say that it was much different than what we expect it as such; very much aligned with what we expected. What we have commented previously is that if we look at from a margin comment perspective, we always use the best view we have for the cost when we make the comment.

If we look at in the past, it is true that the cost increased more than we expected but that's more looking at the past. Other than that, I think we did actually in 2019 say very much aligned development for the second half what we expected.

Klas Bergelind: But then into 2020 obviously, I mean if you go back a couple of years, we didn't have the – delayed the shortages on the contracting side. So, obviously that is a new factor to take into account when you look at the drop-through. When you look at the 2020 outlook, to what extent – I mean you were very helpful before you came in terms of like, yeah, it might be €20 million to €30 million in the bridge on the contracting side. Could you perhaps help us a little bit on the moving parts of 2020 over '19?

Ilkka Hara: Yes, that's fair. So, if I think about the impact of cost from both labor and subcontracting, it is not only the inflation percentage when it comes to that. So, there's – yes, the increase in cost but it's also if you don't have enough installation capacity for example, then you get a bit more – over time a bit less efficiency that you normally would get. And that plays a role as well. But we're talking about some tens of millions if we look at the impact in 2020 coming from labor cost and subcontracting cost increases.

Klas Bergelind: Okay. My second one is on digital coming back here. Hear you on the investment side, Henrik, but I'm interested to hear on the top line impact. I think last time you said digital boost and maintenance sales by round 1%. But what's the impact this quarter? And could you comment again on the level of connectivity? I understand that monetization of IoT is different compared to the level of connectivity; but that 300,000 number, could we get a sense a little bit region-by-region, it would be really helpful.

Henrik Ehrnrooth: I don't have exactly region-by-region on that now. If I look at all of our new services that we said that they probably increased sales growth by a percentage point very roughly, I don't think it was that different for the last quarter. Probably the largest number of connected units would be – the highest penetration is would be in Europe today.

Ilkka Hara: Where it would have been earliest and with many other services.

Klas Bergelind: Okay. My very final one is on Accelerate coming back here. Ilkka, I mean obviously, we're towards the end of the program and we now have more color on the payback. What is the scope now when you've learned through the program, what is the scope to Accelerate number two, i.e., to launch another Accelerate when you look at the scope within the business?

Ilkka Hara: Well, I guess we won't stop developing KONE forward post Accelerate. The main purpose for Accelerate was that we had a strategy Winning with Customers that we've got a good response. And in order to be able to really drive it forward as fast as possible, then the Accelerate program was put in place and it really is a more of a transformation program as we were developing KONE forward. Going forward, this is the last year of Accelerate and we'll continue developing KONE forward but as program it will stop.

Henrik Ehrnrooth: Let's get this done first.

Ilkka Hara: Yes.

Klas Bergelind: Makes sense. Thank you.

Operator: Thank you. We will now take our next question from Edward Perry. Please go ahead.

Edward Perry: Yes. Good afternoon and thank you for taking my questions. Just firstly starting back in China. What trends are you seeing across different segments of the residential market, namely sort of tier one, tier two versus tier three, tier four cities?

Ilkka Hara: Well, actually it's been the probably higher tier cities that have developed better and it's particularly if we look at the area five, six mega clusters in China at the moment and that's where we see most of the growth. And they are clustered around the largest cities and then satellite cities to those, that's where we see most of the growth.

Of course, Southern China has perhaps been fastest growing but we've seen growth in all tier one cities in the past year and tier two as well.

Edward Perry: Okay. And I guess perhaps margins as well, I mean if we're going to think about margins further forward over the next few years, I suppose 2020 and beyond, and of course the 16% target which does still stand, do we need to see a return to those China and your equipment margins of 2015 to 2016 to get there? Or are high levels still achievable through alternative means, such as I suppose internal efficiencies and digital service penetration?

Ilkka Hara: Well, if you think about that target, so we believe that we can get there even without returning to the levels where we were in China. And if you think about the aim, obviously, we want to drive improved margin in China but, clearly, it's a long way to get to where there used to be. But we are seeing good progress from a margin perspective with the new services as a revenue stream but also as a way for us to continue to drive efficiency and productivity in the business.

But at the heart of it, growth helps us. Growth in our services business helps us to drive towards the margin target. And also the fact that we've been able to continue to differentiate in all of the businesses, which is reflected in what Henrik talked about in the price per unit discussion.

But it's also good to remember that in our business without balance sheet, the margin is important target but at the same time with a low capital tied up to the business, the absolute is also important. So, it's important to drive absolute profit improvement for the business. So, it's a bit you need to balance between the two targets.

Edward Perry: Thank you.

Operator: Thank you. We'll now take our next question from Lars Brorson of Barclays. Please go ahead.

Lars Brorson: Hi Henrik, Ilkka, Sanna. Sorry I was a bit late on the call but I want to revert back, I'm sorry, to the bridge for 2020 and specifically the labor inflation you are facing. Ilkka, I think I heard you say a few tens of millions on top of 2019. So, just to be clear, are we talking something to the tune of a €150 million to €160 million of sort of total wage inflation? I'm just trying to think of is that against a total wage bill of sort of €3.5 billion or so? That would be about 5%. It's quite material of course.

And related to that, Henrik, I mean, what are the bottlenecks you're facing in installation capacity, is it in China? And are there sort of more structural issues there? And if that market continues to grow, should we continue to face these headwinds in your Chinese new installation business?

Henrik Ehrnrooth: Let me first answer, Ilkka, on the structural question. Ilkka, you can handle then the cost question. If you look at many countries in Europe, you look at China, it is clear that improving productivity in what we do will be important in the future because there is and will be scarcity of employees.

You can see it from the demographics in China but also we can see that who are we competing with for getting the best employees for that type of a job today; there are delivery firms that employ a lot of people and who we may compete with. So, we have to compete and our subcontractors have to compete with a much broader pool of potential employers in a broader service economy in China.

But we believe that that's something that can be dealt with partly through making sure that the way we do our work and our subcontractors do the work is good, and also through further productivity. And we believe that there is lot that can be done in that area. There have been pockets in Europe where, for example, the just – growth has been restricted by just how much available capacity there has been.

And I think frankly this is going to continue to be a driver also in the future in many countries. But again, how are we dealing with it, we're dealing with just much better planning, driving of productivity, bringing new methods and so forth. So, I think it's possible but what we've seen in the short term is that costs have gone up.

Ilkka Hara: And maybe to add to that, so when we comment on the incremental labor cost inflation, so obviously, there's always inflation. And if I look at the past, for example Asia, we've seen quite a strong inflation in labor cost for quite some time.

But when we are – when I'm picking it up as a separate topic, it's more that we're seeing something which is out of the trend that we've seen and has an incremental headwind rather than the normal. And that's particularly I would say Europe is one where the inflation has been relatively low now clearly more than we've seen in the past.

Lars Brorson: I understand, Ilkka. Sorry to belabor the point, but you were saying incremental, so of course what we're talking about and the way I have thought about that historically is a roughly 3% on your total wage bill gets me to €100 million. I think in 2019 we talked about a few extra tens of millions, call it €130 million. It sounds like now we're talking about another tens of millions to the €150 million, €160 million levels. So, I just want to make sure in absolute terms in our bridge not incremental but for the total wage bill that comes through in 2020 that is roughly the order of magnitude.

Ilkka Hara: That's not a bad estimate unless the bridge always is simplify many things. But I think that's a good estimate.

Lars Brorson: And on digital investment, if I can just be clear again on the earlier question, what is that? I mean the incremental headwind coming through in 2020 from an absolute standpoint your go-to-market, your training, etc. I mean, I think we've talked about adding sort of a €50 million annual spend around R&D and digital. What is the incremental headwind coming through in 2020, if I can?

Ilkka Hara: So, in the past, we clearly had R&D and IT coming up. We talked about 50 basis point increase as a percentage of sales but it's been more stable in last year. And that's what we continue also for 2020. But when we talk about this incremental investments, it's a few tens of millions that we're talking about.

Lars Brorson: That's clear. Thanks, both.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from Tom Skogman of Carnegie. Please go ahead.

Tom Skogman: Yes. This is Tom Skogman from Carnegie. I have two questions. If I start with the first one now, I wonder about this margin development both in 2019 and what you comment for 2020 just on a regional basis? So, was the margin kind of down or up in China in 2019? And when you look at your guidance for 2020 and based on these comments that pricing has improved, do you expect the margin to improve especially in some certain geography?

Henrik Ehrnrooth: China improved slightly last year, yes.

Tom Skogman: And in 2020 is the price improvement especially going to leave the China margin again then or is it more evenly spread?

Henrik Ehrnrooth: I think more evenly spread particularly China and many European countries.

Ilkka Hara: Yeah, I would say that we've been making good progress in a number of markets in pricing, not only in China.

Tom Skogman: And I assume there was also a significant improvement in Americas in 2019 when you have had big growth in the delivery volumes.

Henrik Ehrnrooth: North America performed strongly last year again. I would say from margin perspective, perhaps they had been even better in the years before but we had continued to have very good performance in our North America operation last year.

Tom Skogman: Okay. And then about this new elevator model. Can you help me to understand whether there are some energy savings in the new model as well as another sales argument or whether it's hard to get new savings there? And then on the cost side, how much will the cost of goods sold go down for a basic model, this model basically on the product side but also on the installation side?

Henrik Ehrnrooth: So, this is more of a value-driven launch rather than a cost-driven launch. So, you should more think about value and what premium we can get for it. I think that is really the essence of this. It has more technological features than all the elevators.

Of course, when we bring more intelligence into elevators, we bring better predictability into them. Always that is good for sustainability and for energy efficiency. Specifically, in this, we have not had a big leap in energy efficiency. That is something actually we've done every year and we continue to do every year as part of basic improvement of our products. So, this launch, you can say it has more to do with the experience for our customers and users is the big thing with this launch.

Tom Skogman: So, there is no big kind of leap in installation efficiency that would mitigate the labor cost inflation for instance?

Henrik Ehrnrooth: That's – I would say that is something that has been constantly part of our ongoing development but not a step change here, no.

Tom Skogman: Okay. Thanks.

Operator: Thank you. We'll now take our next question from Martin Flueckiger of Kepler Cheuvreux. Please go ahead.

Martin Flueckiger: – taking my question. And I've got three and I'll take one at a time. Starting off with EMEA. And apologies if I've missed this one because I was kicked out of line earlier on.

Just coming back to the new equipment orders in EMEA, those declined clearly in Q4. Can you talk a little bit about the main drivers for this development? That would be my first question.

Henrik Ehrnrooth: Again, as Ilkka mentioned for orders received overall, it was really a question of less major project that was actually the same thing across regions.

Ilkka Hara: Yeah.

Martin Flueckiger: Okay. Thanks. Then my second question would be on the issue of land acquisition area in China. I realized in Q4, it was up a little bit, I think around 6% or so. But overall it was down by around 11% in 2019. Now, have your customers also reduced their land acquisition area? And if yes, have we seen an impact towards the end of the year in terms of their land banks?

Henrik Ehrnrooth: The understanding we have from our large customers is that actually they have ample land bank to develop. That is not a bottleneck for them in capacity. I think what we've seen is that their turnaround times are becoming faster and faster. So, from the time you buy your land to the fact that you have your plants ready, you break ground and you order your elevators or any other equipment for that matter.

And that is also what we have seen that lead times in China, for us as well, has clearly shortened. And as one of our competitive advantages we have in China is that we have a very short lead time from order to delivery and that is something that many of these large developers expect nowadays that there are many of them whose business model is very much about speed. And therefore, our understanding is that land bank is not and has not been a kind of bottleneck to growth.

Martin Flueckiger: Okay. Thank you very much. And then my final question, if I look at the NBS data for China, property inventories back on the rise again with floor space buildings sold only flat in 2019. Is this a point of concern for you or is it just too early still to draw any conclusions on the new equipment market?

Henrik Ehrnrooth: Not – at this level, it's not to concern. We think markets particularly where they're growing are quite healthy. One always has to go quite a deep to see where are these and where the market is growing and where is the demand. So, the outlook at the moment that we see for the coming year looks pretty solid. Of course, as I mentioned that this Coronavirus outbreak could have an impact or is at least early year going to have an impact. But what is a longer-term impact, we don't know.

Martin Flueckiger: Okay. Thanks. I'll go back in line.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from James Moore of Redburn. Please go ahead. I do apologize. We're taking question from Magnus Kruber of UBS. Please go ahead.

Magnus Kruber: Hi Henrik, Ilkka. Magnus here from UBS on behalf of Guillermo. Just a follow-up on the Coronavirus impact comment. I think you mentioned a couple of tens of millions impact on EBIT in Q1. Was that right? And is that part of you full year EBIT guidance?

Henrik Ehrnrooth: If that is part of our full year EBIT guidance if it's – if that is the impact. But as I said, that is – if we have a week delay we could see something like that. If it's then prolonged, it could be something more. So, based on what we see today, we believe it's part of our guidance impact. But then again, we can't predict what the situation eventually would be. Of course, what we can see and what I think is good is that we can see that the authorities have taken very swift and determined action to contain it.

Magnus Kruber: Got it. And would you say this impact would sort of scale a line nearly with the amount of time it takes to resolve?

Henrik Ehrnrooth; Yes.

Magnus Kruber: Got it. Thank you so much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We'll now take our next question from James Moore of Redburn. Please go ahead.

James Moore: Thanks for taking the follow-up. I just wanted to get back into China if I could and ask a bit about GiantKONE versus the KONE brand. Last time I did an update on this with local accounts, I think Giant was roughly 25% of your units but 20% of revenues and margins were 13%, 14% back when you were making maybe 20% in China as a whole. I just wondered whether the share of revenue and units is broadly similar these days or whether the large developers who I sense are trading up has meant that its share has become a smaller part of your China portfolio.

I guess the margin difference can't be the same as it was. Would it be fair to say that KONE margin has come down similar to the KONE – the Giant margins come down similar to the KONE margin, or how should we think about profitability between your brand structure?

Ilkka Hara: It's clear that over the past two years the KONE brand has grown somewhat faster. So, the ratio would have changed a little bit, but it's not materially different between the two. Yes, we have higher margins in the KONE brand than in the GiantKONE brand overall.

James Moore: Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We will take our next question from Andre Kukhnin of Credit Suisse. Please go ahead.

Andre Kukhnin: Thank you very much for taking the follow-up. I wanted to come back to digital. And thank you for the two data points. Could you comment on how the ASP has developed for specifically digital offer through 2019? Has there been any change?

Henrik Ehrnrooth: No, it's been pretty stable. Good overall pricing for it.

Andre Kukhnin: Right. And is that ASP different in Asia versus Europe or given the difference in maintenance contract values?

Henrik Ehrnrooth: It is slightly different, not massively. China is a lower level but rest of the world not massive differences. But, of course, they're always going to differ market to market based on the competitive situation and so forth.

Andre Kukhnin: Got it. And the 5% that you mentioned for the paid digital penetration, could you give us an idea where that was at the beginning of the year of 2019?

Henrik Ehrnrooth: Of course, it was quite – it was low. So, the biggest part of the units that we have that we sold during –

Andre Kukhnin: Like in the 1% range?

Ilkka Hara: Some percentages. Clearly, most of the growth has been in 2019 if we think about the rollout and it's also one where we started – when we talked about it a couple of years ago with Europe and it's been then rolled out. And much of the momentum continues to be growing throughout the year.

Henrik Ehrnrooth: And what we see in most markets it takes actually almost a year to really get them to – for marketing efforts, train new employees, getting customers used to it, being able to re-demonstrate the value. It takes usually a year and then scaling up starts faster. So, that's what we can see in many European countries that were early they're actually doing quite nicely in terms of growth right now.

Andre Kukhnin: Right. So, yeah, the final bit I had on this was just actually alluding to that is that it seems to imply that from what you've just said, the attachment rate is around kind of 50% if I look at your new service contracts signed and – versus the kind of addition to the paid digital service units. They seem to be about one-half of what roughly I think you sign in terms of service contract. Is that broadly right? And has that changed as a ratio throughout 2019 in Europe?

Ilkka Hara: What I would say is slightly differently is that perhaps the best hit rates we have in new installations, new conversions. Then hit rates depend quite a lot on segment outside of that which we sell to existing customers. And it varies quite a lot. But clearly, overall, the best hit rates are in connection with conversions from new equipment.

Andre Kukhnin: And has that hit rate changed through the 2019 in kind of like-for-like countries? I mean I'm not saying about countries where you launched during 2019 but in countries where you already had at the beginning of '19, did it change through the year?

Ilkka Hara: Clearly, of course, it's improving. That's why we are able to scale the services and grow them quite fast now.

Andre Kukhnin: Thank you. And very final one, if I may. I wanted to just double check on your North America and EMEA new equipment market outlook for stable. It seems a little bit conservative vis-à-vis the broader construction indicators like permitting and starts and ABIs and Dodge. So, just wanted to check is there a particular segment or mix that leads you to that or do you see anything in the indicators that is not real?

Henrik Ehrnrooth: Actually, if you look at the ABI in the US, it's actually been hovering around 50 or actually slightly below 50. So, that is clearly indication there. You haven't had much – it fluctuates every month but overall on average it's been slightly below 50. In Europe, it varies a lot the growth. So, you have growing markets but you also have markets that contracting. So, overall, we think it's – markets are pretty stable.

Andre Kukhnin: Got it. Thank you very much for the time.

Henrik Ehrnrooth; Okay, thank you.

Operator: Thank you. This concludes today's question and answer session. At this time, I would like to turn the conference back over to the speakers for any additional or closing remarks. Thank you.

Sanna Kaje: Thank you. A lot of questions today. Many thanks for those and we are, of course, available to answer any further questions later. But with this, I think we'll close the Q&A session at this point. So, have a nice rest of the week.

Henrik Ehrnrooth: Thank you for the activity.

Ilkka Hara: Thank you.

Henrik Ehrnrooth: Thank you.