

KONE CMD 2016

# Strong performance in a growing market

LARRY WASH, EXECUTIVE VICE PRESIDENT, THE AMERICAS

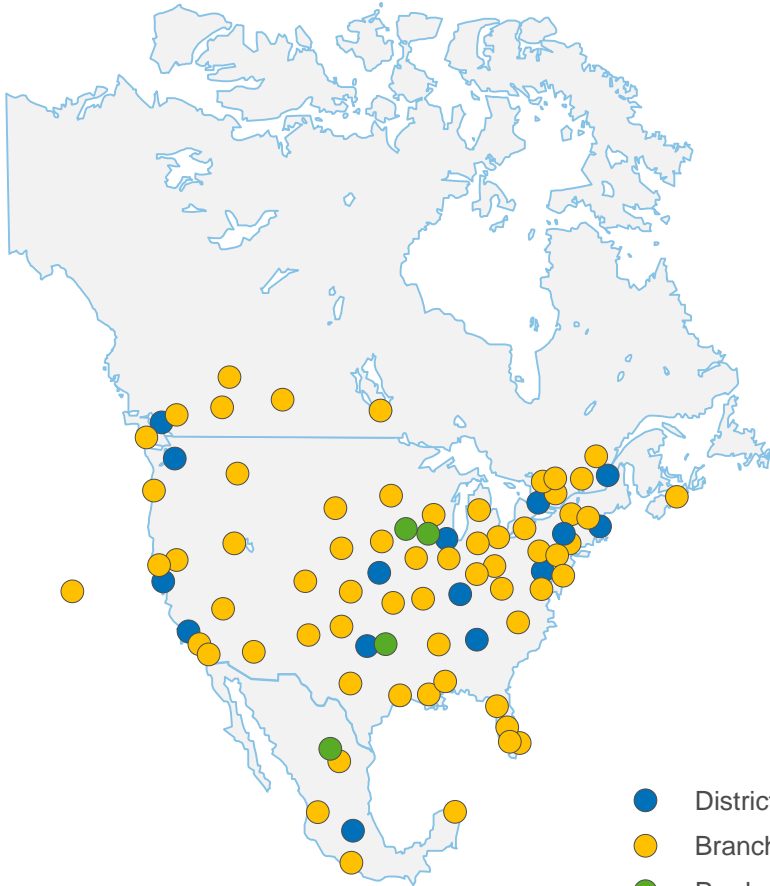
SEPTEMBER 28, 2016

# Agenda

- Market development
- Business performance
- Long term growth drivers
- Smart growth



# North America is an important region for KONE



**EUR 1.5 bn** Total sales in 2015

**~22%** Growth in order book in 2015

**50,000** New equipment and service customers

**83** Offices and facilities across the region

**10,000** Maintenance site visits daily

A technician wearing a blue uniform, cap, and safety glasses is kneeling and working on the side of a modern escalator. He is using a screwdriver to adjust a component. The background shows a retail store with clothing racks and a blurred figure of a person on the escalator. A large blue semi-transparent overlay covers the left side of the image.

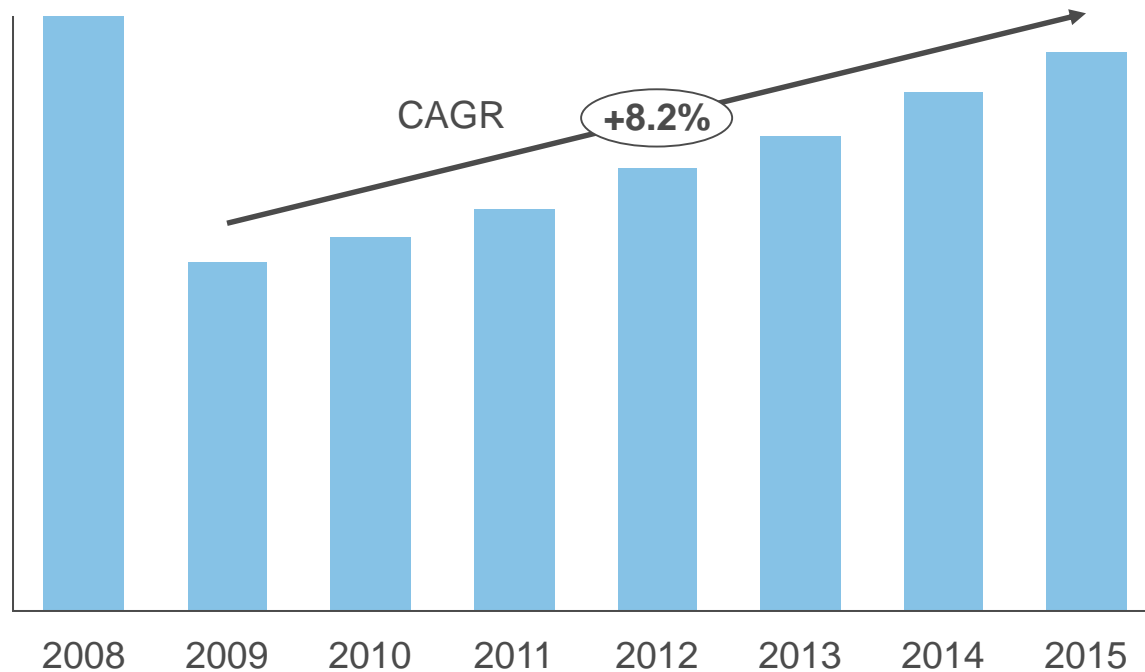
Market development

# The North American new equipment market has recovered significantly and is at a high level



## NEW EQUIPMENT MARKET DEVELOPMENT 2008-2015

New equipment orders, units



Based on KONE estimates

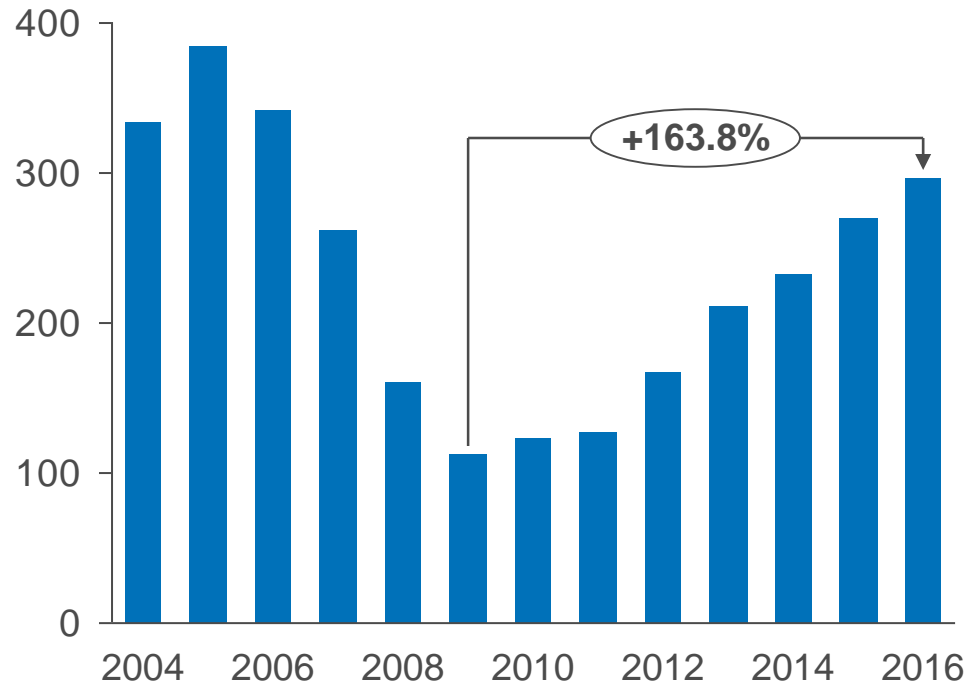
- Strong market growth in the U.S.; positive development in Mexico; stable market in Canada
- Broad-based development across all building segments, in residential, commercial and infrastructure in particular
- U.S. accounts for ~80% of the new equipment market in the region
- Growth rate expected to moderate, but market expected to remain robust at a high level

# The U.S. construction market has developed favorably in both residential and commercial segments



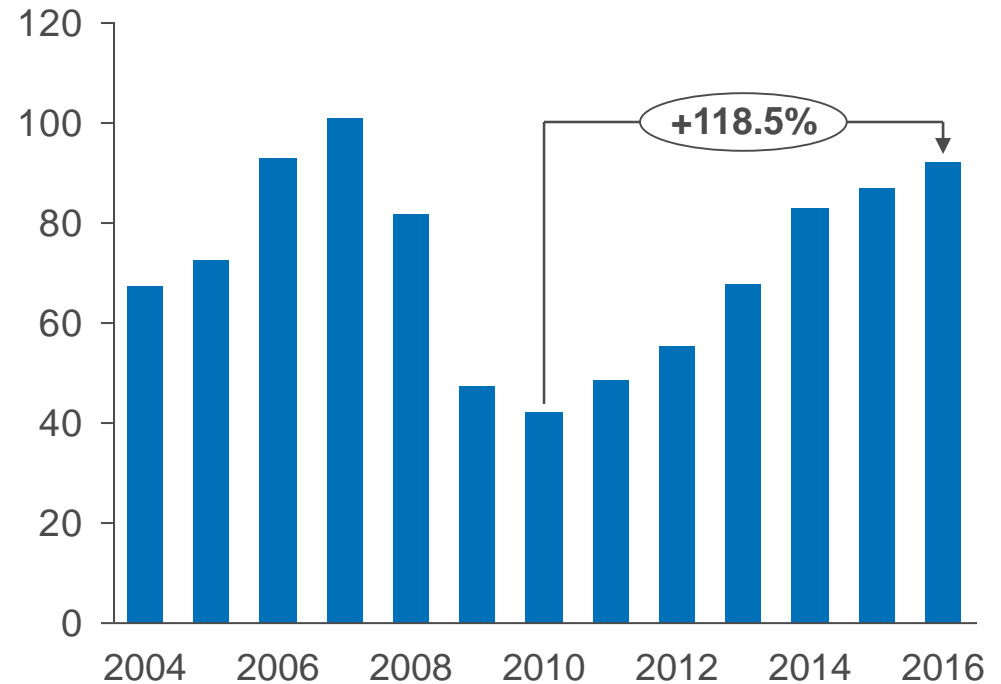
## RESIDENTIAL CONSTRUCTION STARTS

Billions of dollars



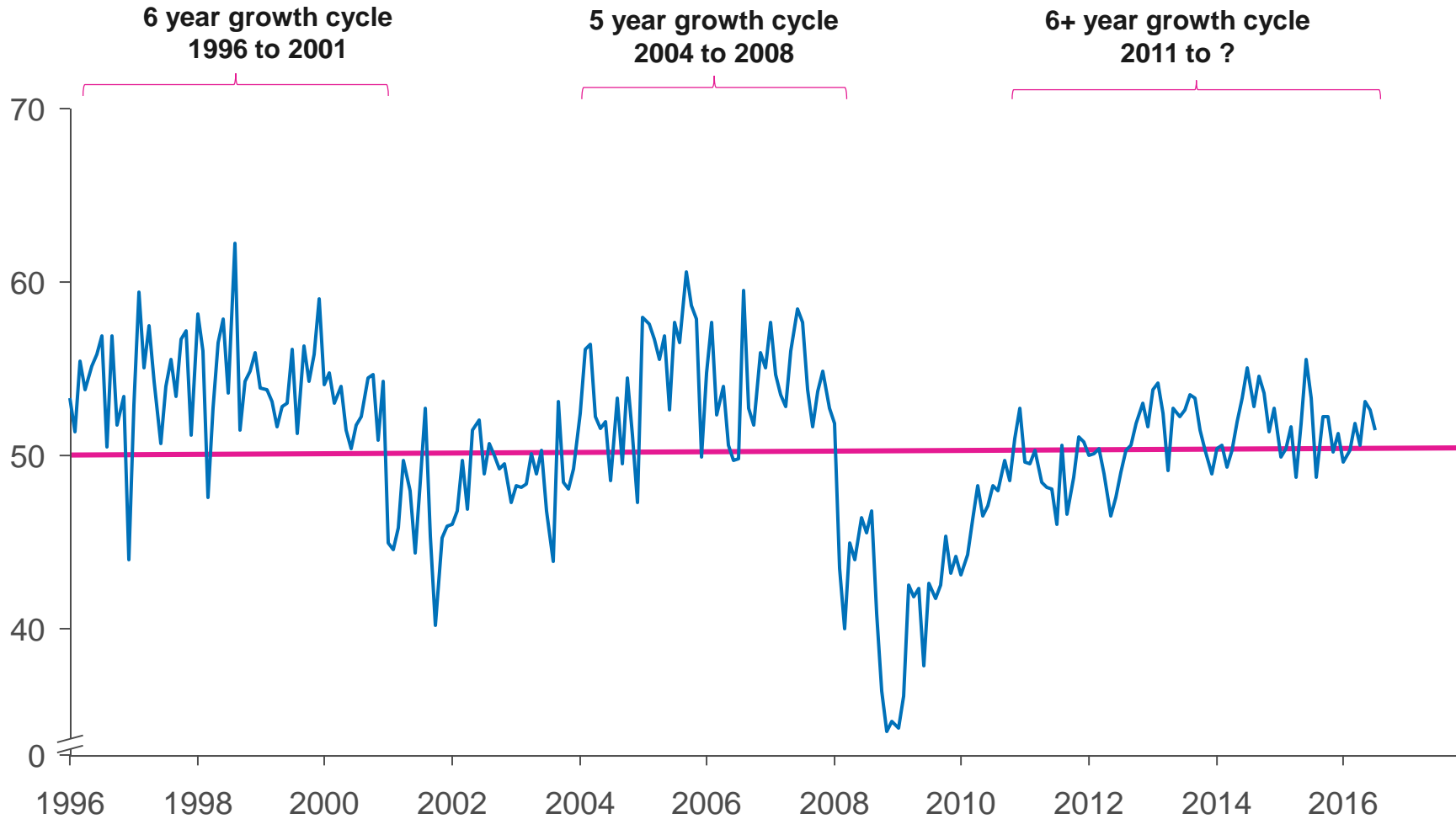
## COMMERCIAL CONSTRUCTION STARTS

Billions of dollars



Source: Dodge Data & Analytics

# The Architectural Billings Index in the United States indicates a continued positive trend



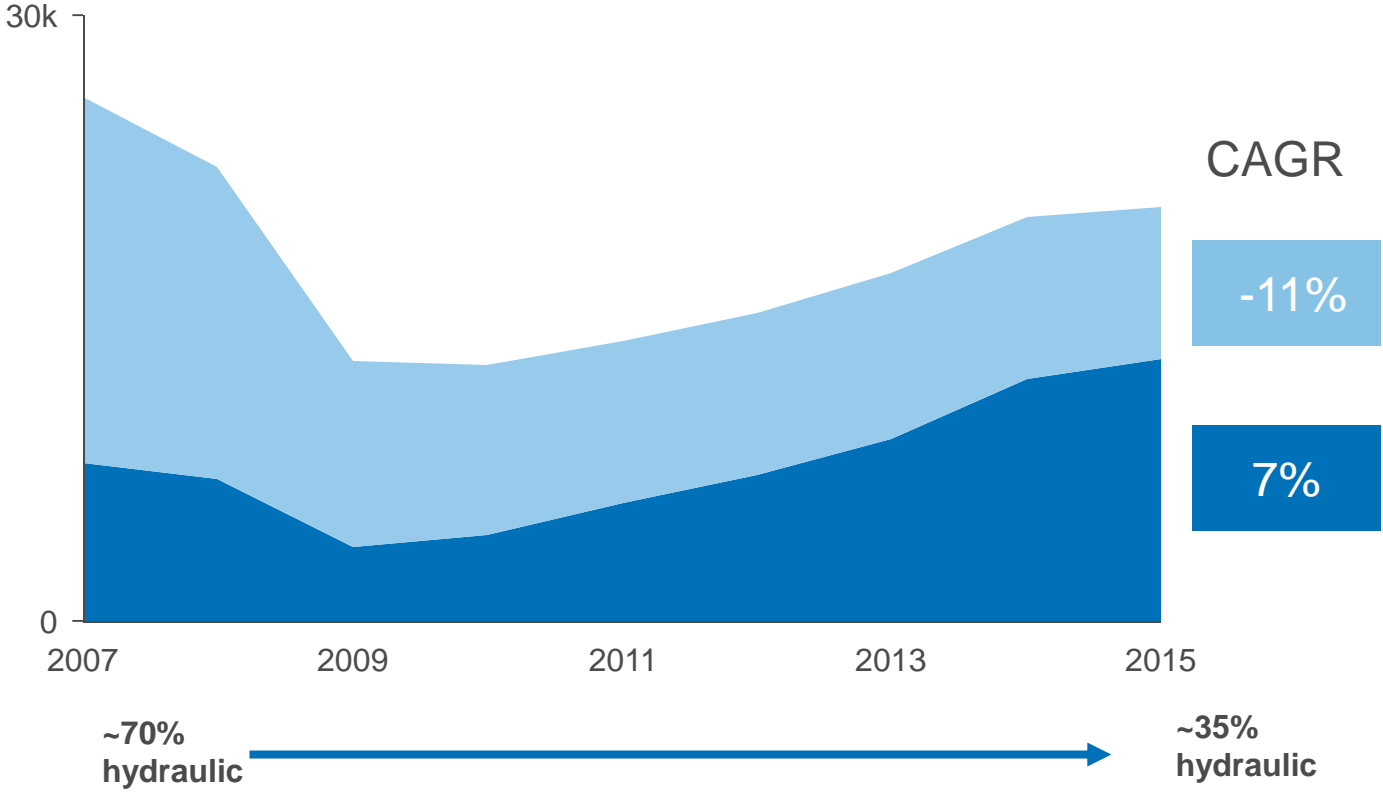
Source: ABI

# Machine-room-less elevators now account for clearly over 50% of the U.S. market



## NEW EQUIPMENT MARKET IN THE U.S., UNITS

Hydraulic MRL/MR\*



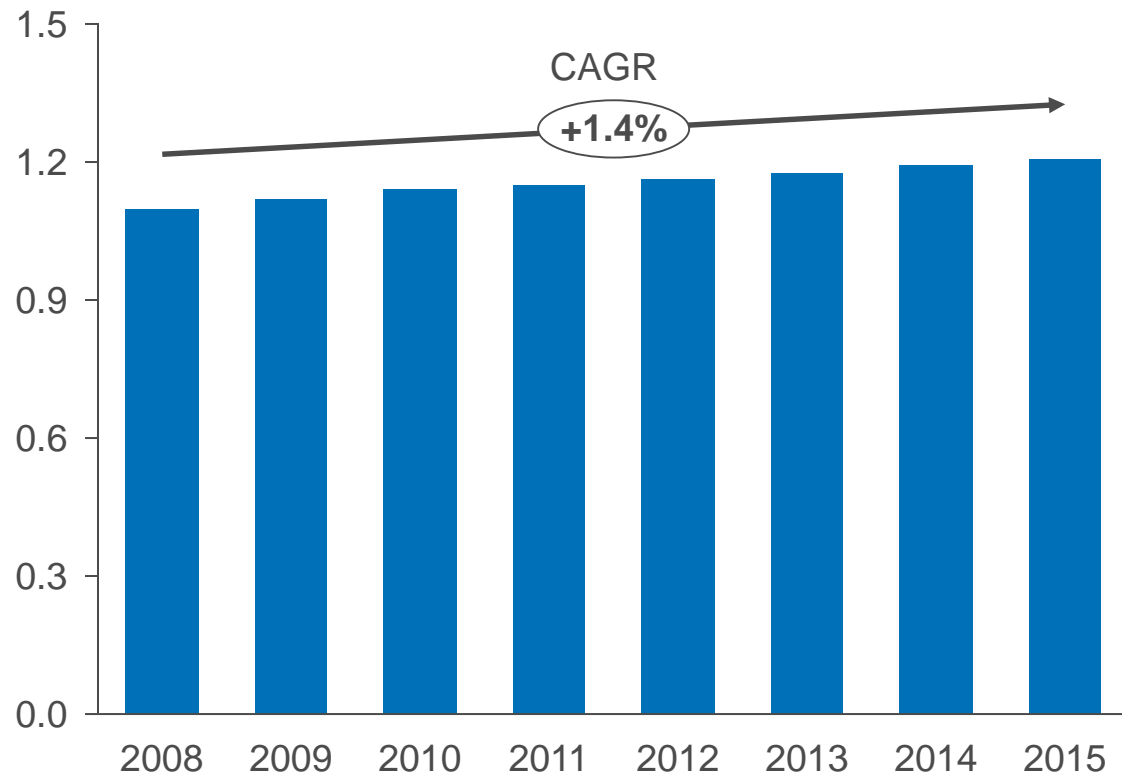
\* Machine-room / machine-room-less



# The maintenance market in North America has been growing incrementally each year



## INSTALLED BASE GROWTH 2008-2015



Based on KONE estimates

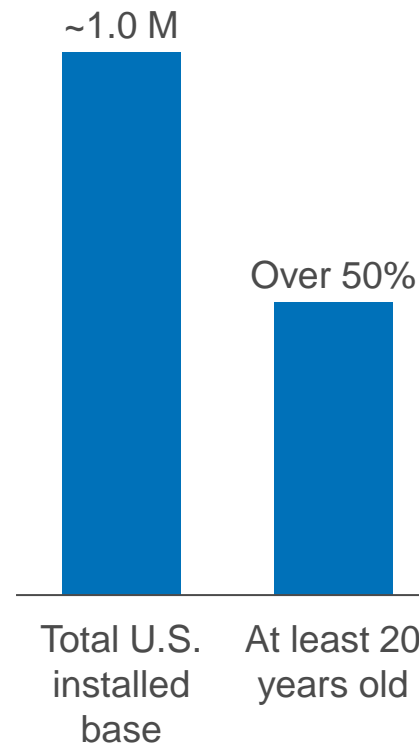
- Maintenance opportunity in North America is significant with over 1 million units in operation
- Market environment is competitive with many facility management companies consolidating purchasing
- OEMs have significant market share
- Clear room for further differentiation with the introduction of new digital innovations

OEM: original equipment manufacturer

# The modernization market provides clear untapped potential in North America

- Large modernization potential with good tendering activity across regions
- Modernization demand has developed positively since 2012
- Drivers: economic recovery, competition in the commercial segment, emerging safety requirements
- Currently North America represents around 25% of the total global modernization potential in value

## HUGE MODERNIZATION POTENTIAL IN THE U.S.



Based on KONE estimates



A technician wearing a blue uniform, cap, and safety glasses is kneeling and working on the side of a modern escalator. He is using a screwdriver to adjust a component. The background shows a retail store with clothing racks and a blurred figure of a person on the escalator. A large blue semi-transparent overlay covers the left side of the image.

Business performance

# We have systematically strengthened our capabilities to grow profitably and gain share



## New equipment

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- Leadership position in the fast growing machine room-less market
- Active in all building segments with strong performance in major projects
- Pricing excellence, better project management and installation productivity

## Modernization

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- Market leading product offering
- Broad capabilities across segments and in major projects
- Innovative solutions for lobby modernization

## Maintenance

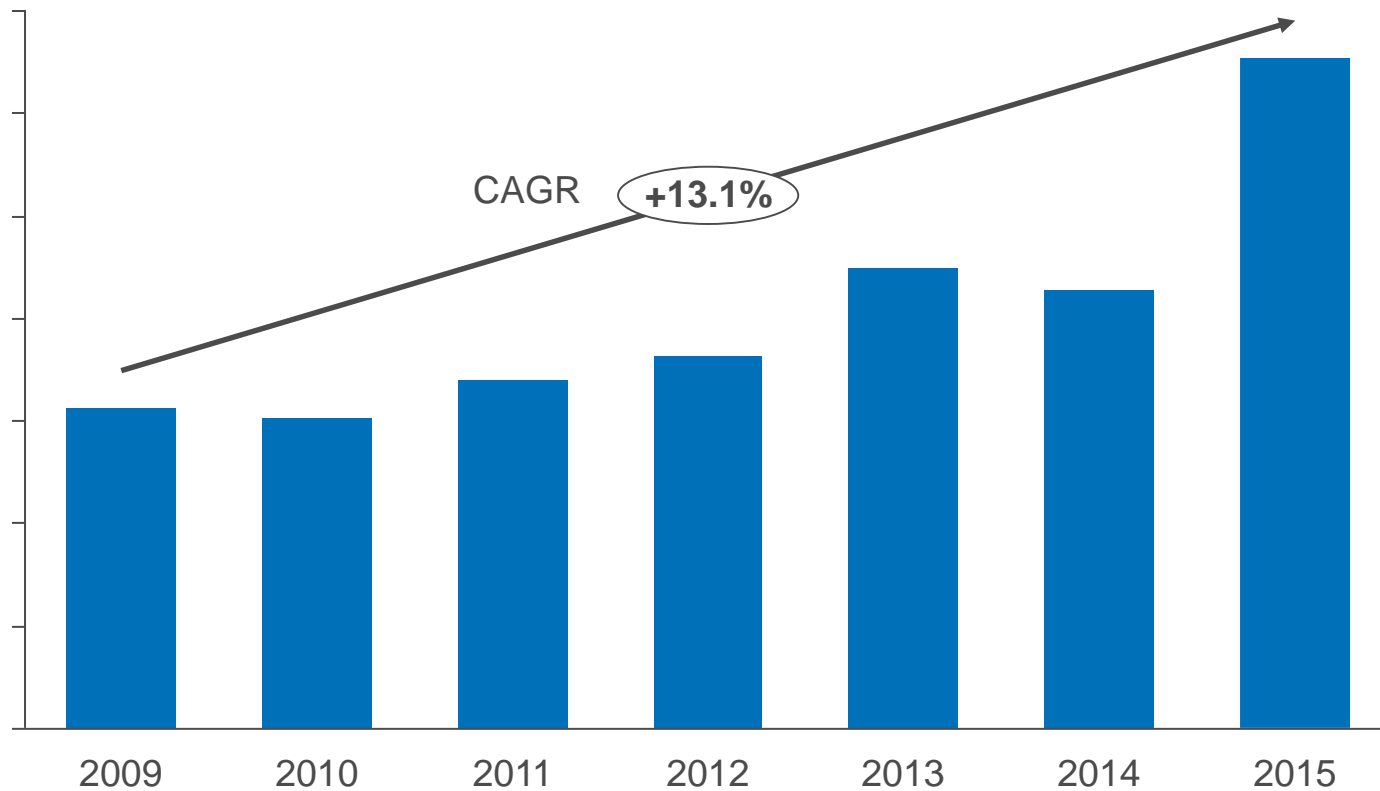
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- Strong execution with high-quality service and delivery
- Implementation of new field automation tools and remote monitoring technology to further improve customer experience and productivity
- Benchmark response times, call-out rate and customer and technical support

# Our orders received have doubled since 2009



## NORTH AMERICA ORDERS RECEIVED 2009-2015



### New equipment

- Execution of smart growth strategy with an emphasis on pricing excellence through market segment differentiation
- Faster than market growth with margin expansion

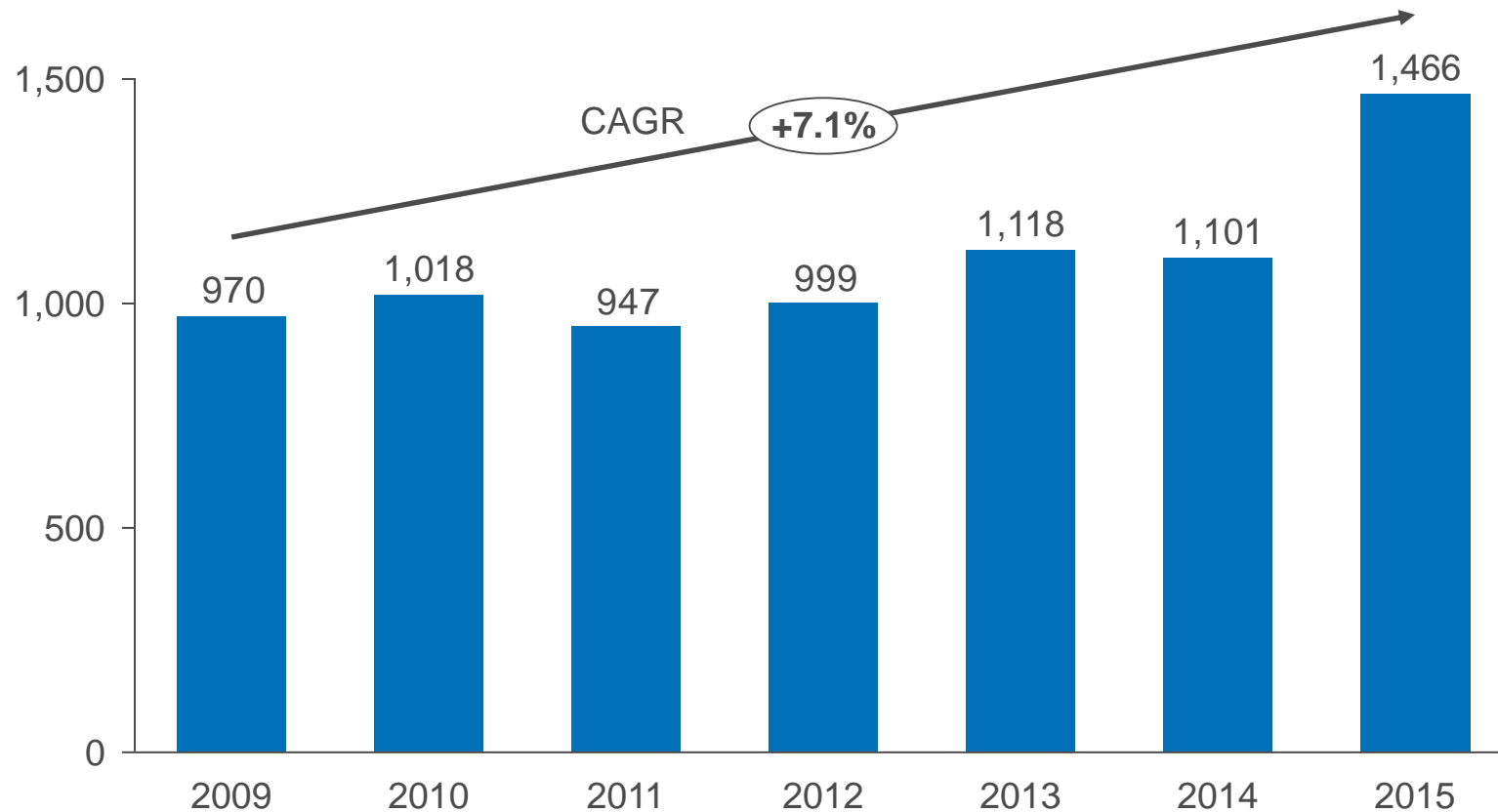
### Modernization

- Strengthened sales management approach has driven positive development
- Investments in dedicated sales force

Orders received do not include maintenance contracts

# Strong orders development is now visible in sales growth

## NORTH AMERICA SALES 2009-2015



- Sales growth with improved profitability
- New equipment and modernization have reached double-digit sales growth
- Order book remains strong and continues to grow. The lag from order to delivery in North America is ~1.5 - 2 years

# Our profitability has clearly improved in North America

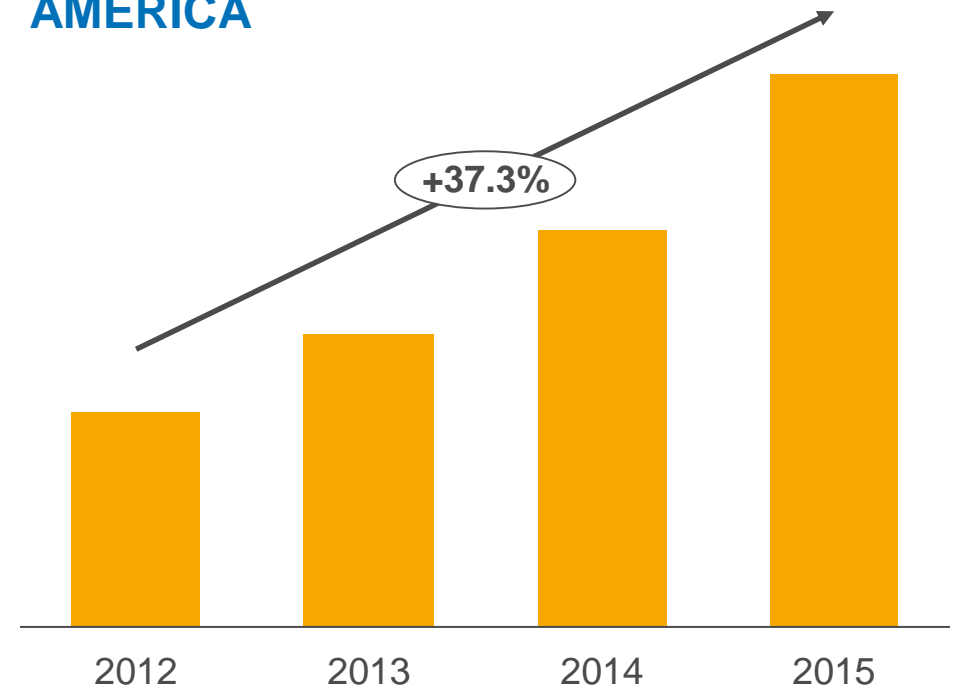
Active improvement in new equipment profitability

Multi-year focus on pricing excellence

Technology and process-driven productivity actions in all businesses

Operational leverage in core businesses

## PROFIT DEVELOPMENT IN NORTH AMERICA



# At the same time, we have continued to invest in our people and innovation capabilities



## NEW ALLEN FACILITY STRENGTHENS OUR U.S. FOOTPRINT

- In 2016, we opened a Center of Supply Excellence housing an R&D department, a light manufacturing unit as well as engineering and logistics functions
- Strengthens our capabilities from product design to installation, with innovation and speed to market as the key drivers.



## WE FOCUS ON ATTRACTING, DEVELOPING AND RETAINING TALENT

- Investments into training and developing our people visible in improved employee engagement scores
- Focused actions have driven further improved performance in safety



Long term growth  
drivers

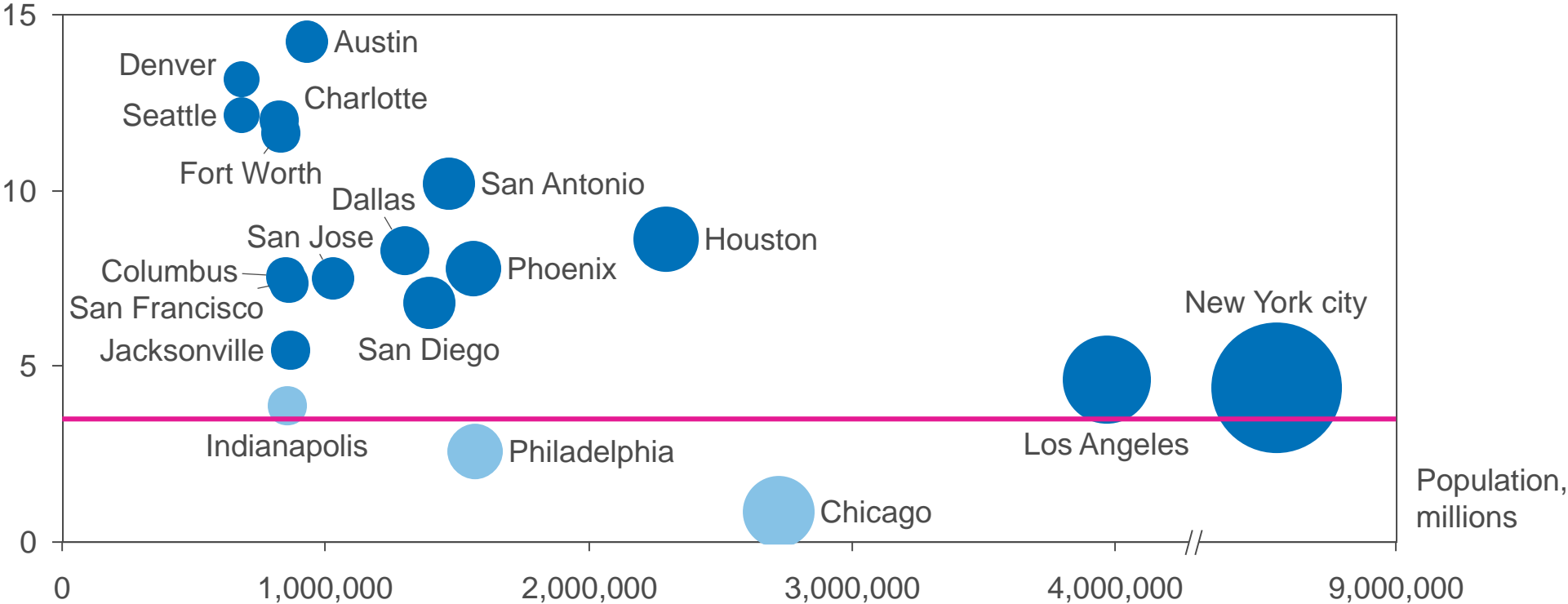


# Growth centers attract more and more people



## POPULATION GROWTH IN U.S. CITIES HAS SURPASSED THE NATIONAL AVERAGE of ~4% IN 2010-2015

Population growth 2010-2015, %

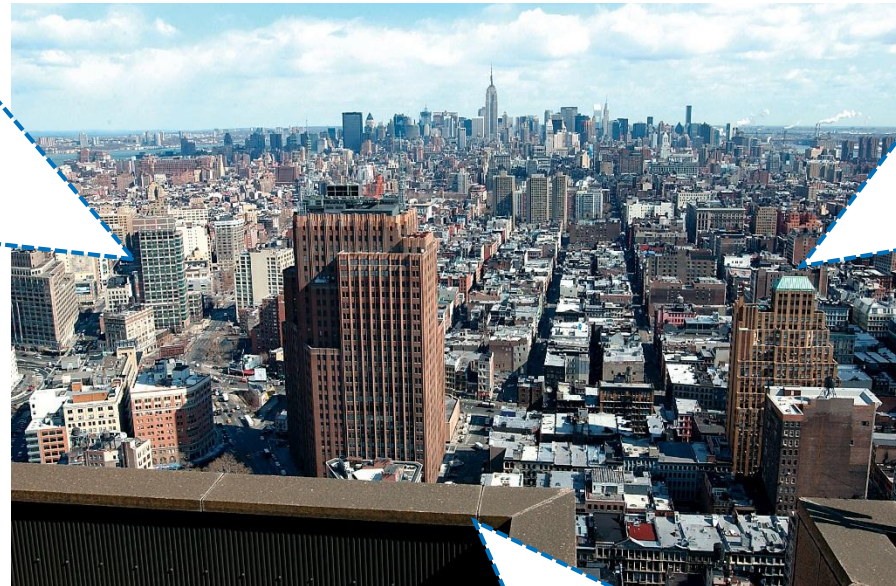


Source: U.S. Census Bureau

# North American cities are evolving and becoming more dense

## COMMERCIAL CONSTRUCTION

- Companies are increasingly choosing downtown over suburban office locations
- Changing living preferences will have an impact on retail as well as educational sectors' location decisions



## INFRASTRUCTURE CONSTRUCTION

- Existing urban infrastructure is aging rapidly
- More investments needed in public transport to accommodate commuter needs

## RESIDENTIAL CONSTRUCTION

- Clear need for affordable apartments

# Multi-family construction has developed strongly



## CONSTRUCTION DEVELOPMENT BY CONSTRUCTION TYPE

Housing units. Scaled, 2004=100

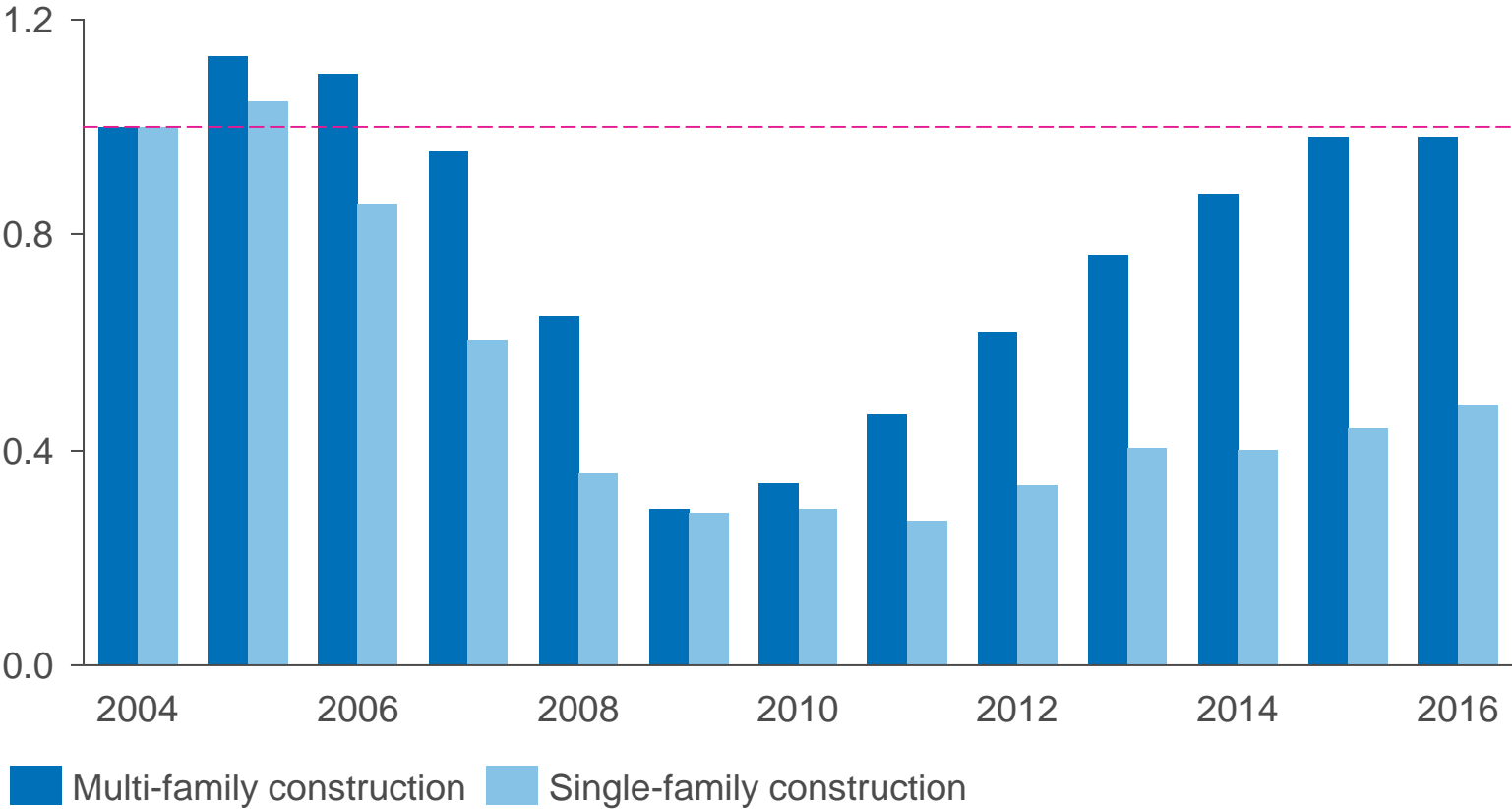


Photo credit: iStock

Source: Dodge Data & Analytics

Also the way buildings are being designed,  
built and managed is changing



## SMART DESIGN

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Architects are moving to a new level of modeling and design

## SMART CONSTRUCTION

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New innovations are breaking up stagnation in construction productivity

## SMART MANAGEMENT

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The proliferation of mobile, IoT, cloud computing and big data is changing how buildings are managed

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Smart growth

# We will take our solutions and operations to the next level **KONE** by leveraging our people and new technologies

## **NEW EQUIPMENT**

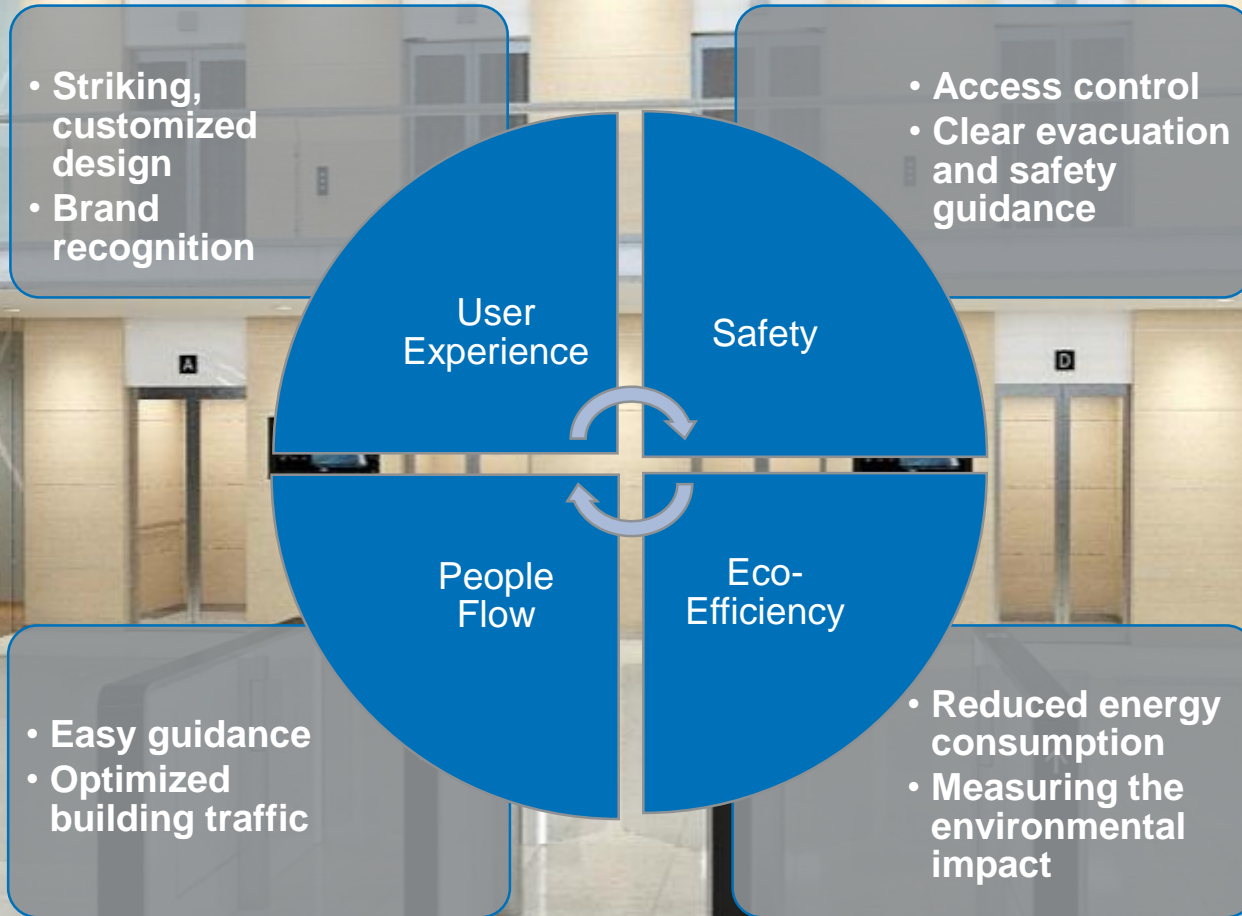
- **Deliver a superior customer experience with new, innovative solutions**
- **Operational excellence with speed of delivery and installation productivity**

## **SERVICES**

- **Differentiation in maintenance with tailored solutions and advanced analytics**
- **Further strengthening our full replacement offering in modernization**

**Attracting and investing in the best employees**  
**Investing in and leveraging new digital technologies**

# Our new solutions support our customers' business in smart buildings



**We are changing the People Flow® experience in lobbies**



We have a high ambition level in North America



## NEW EQUIPMENT

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Continue our faster than market growth with pricing focus, operational excellence and new innovations to exceed customers' needs

## SERVICES

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Accelerate our growth by increasing our differentiation through new cloud-based services and smart building management offering

Dedicated to People Flow™

