

KONE CMD 2022

# KONE China – continued leadership in new equipment and services

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# KONE is the market leader in China



We are China's

**#1**

in deliveries and service units and represent ~35% of KONE's global sales

We serve

**>30,000**

customers, covering 16 of China's Top 20 developers

We have >90 branches and

**>600**

service depots ensuring quality maintenance to customers

We employ

**>23,000**

employees across China

We have shipped accumulatively

**>1.3 million**

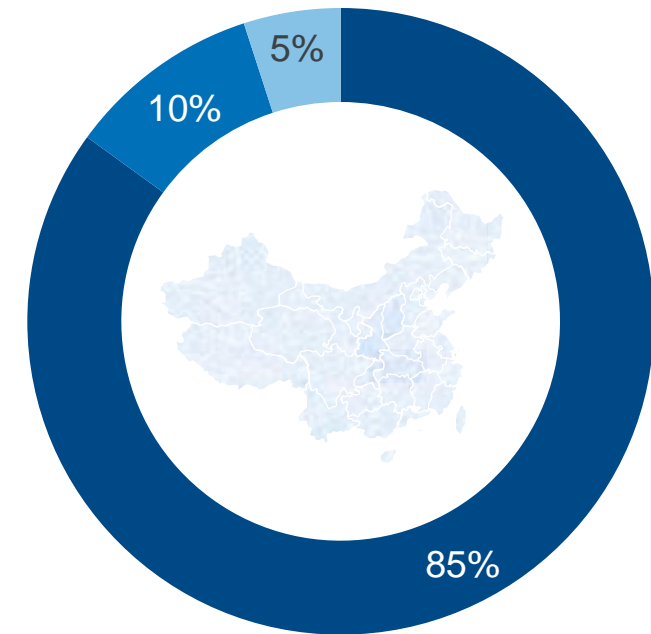
units from our Kunshan & Nanxun factories

We maintain

**>530,000**

units of equipment covering all provinces in China

## KONE China sales by business



■ New equipment ■ Maintenance ■ Modernization

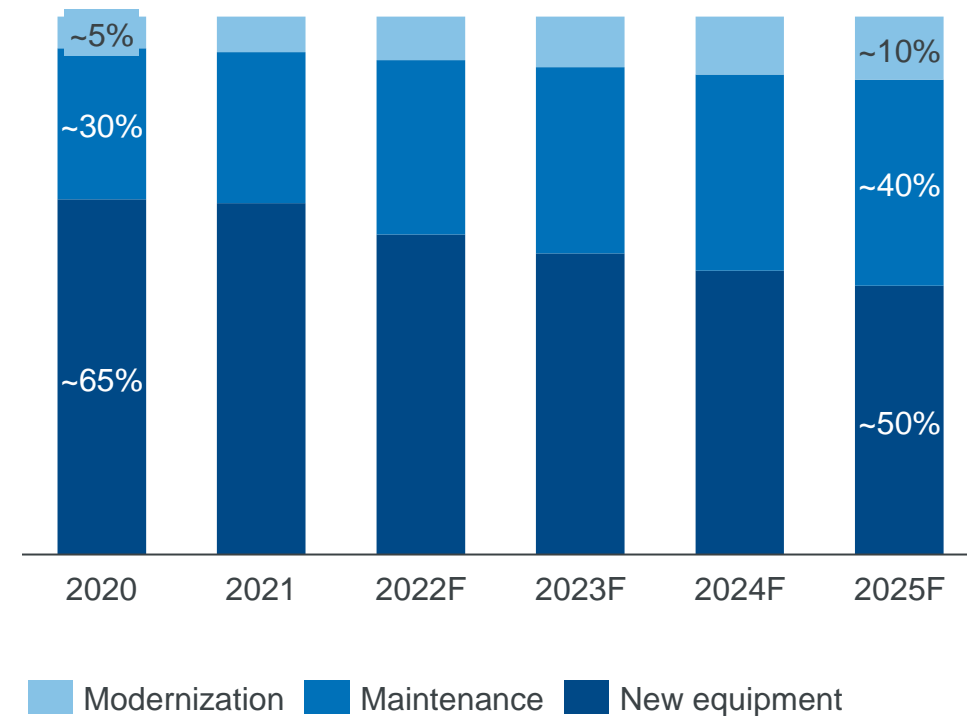
# The China E&E market mix is shifting; KONE is well positioned to outperform the market



- **New equipment** market has peaked but will remain at a high level
- **Maintenance** and **modernization** markets will continue to grow at high rates
- KONE is positioned to outperform the market in all three business areas
  - New equipment: maintain leadership with competitive products and market coverage
  - Maintenance: build on top of solid foundation; gain share via innovative digital solutions and productivity tools
  - Modernization: building the KONE brand and capturing growth via extensive channels

## China E&E market composition

Monetary value



# COVID-19 restrictions are impacting market activity and business operations



## COVID-19 restrictions have disrupted supply chains and business activities

- >50 of 100 largest cities in some degree of lockdowns
- Restrictions have caused significant disruptions to logistics, situation improving with China ports back to normal operations
- Easing policies expected to drive recovery post Q2

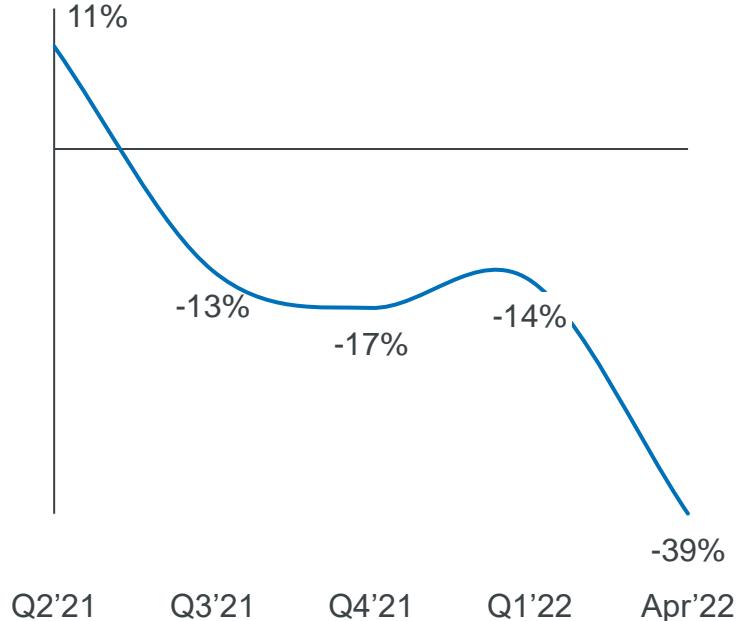


## KONE's operations resilient in prevailing circumstances

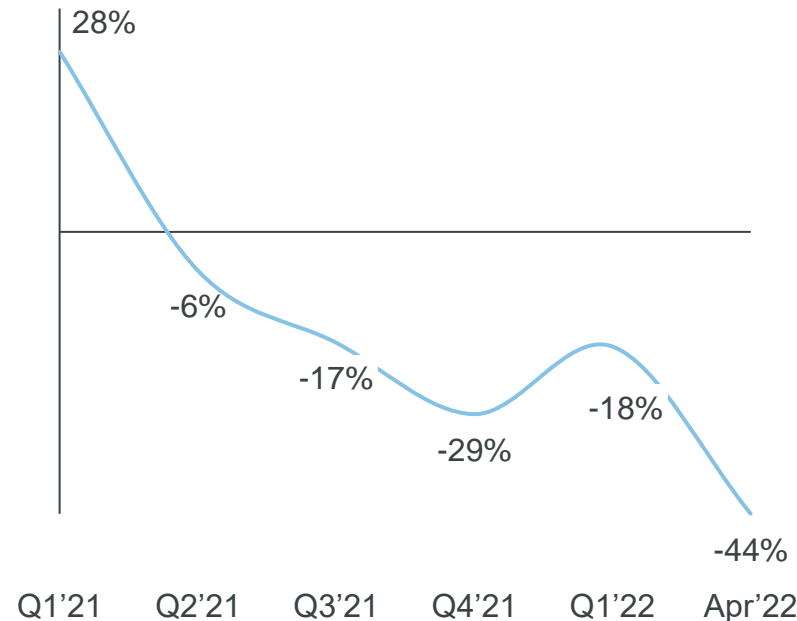
- Demand for KONE's solutions continues to be solid
- Construction site closures has impacted deliveries, maintenance has remained resilient
- Kunshan and Nanxun factories closed for 3 weeks in April, both back in full capacity as of latter part of May
- Resolving lingering logistics issues together with our suppliers

# Short term: China property sector downturn through Q2, likely to recover in H2'22 as more policy support materialize

## Property sales area growth (%)



## New construction area growth (%)



## Recent supportive policies

- Central government policy support
  - Cut in RMB Deposit-reserve ratio
  - 1-year Medium-term lending facility injection
  - VAT and tax relief
  - Increased infrastructure investments
  - Funding support for developers' M&A activities
  - Mortgage debt relief
- Local property market support
  - Lower mortgage rates
  - Lower down payment ratios
  - Loosened sales controls



# Longer term: key trends impacting the market going forward



## Urbanization and aging population

- 10-15 million migrating to cities annually
- By 2025, 300 million people over 60 years old



## Cluster formation and infrastructure investments

- 19 city clusters drawing investments
- Further investments in transportation & logistics to connect city clusters



## Developer consolidation

- Expect top developers to gain further share going forward
- State-owned enterprise (SOE) developers to be more dominant



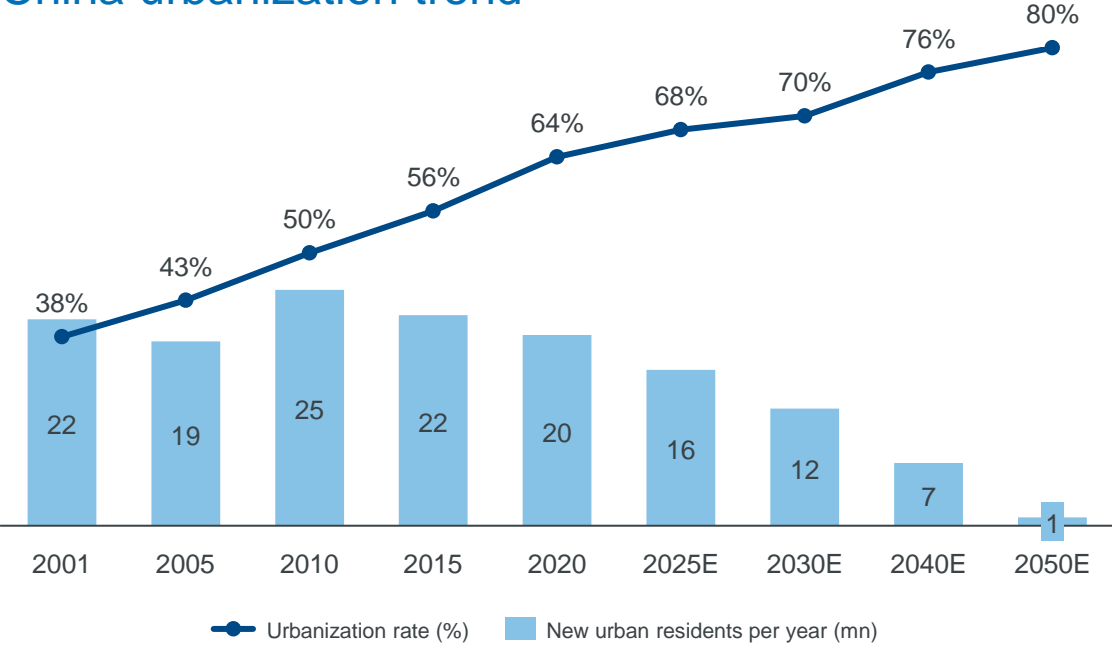
## Digitalization and connectivity

- 11 provinces have implemented IoT platforms
- Connectivity a pre-condition to condition based maintenance (CBM)

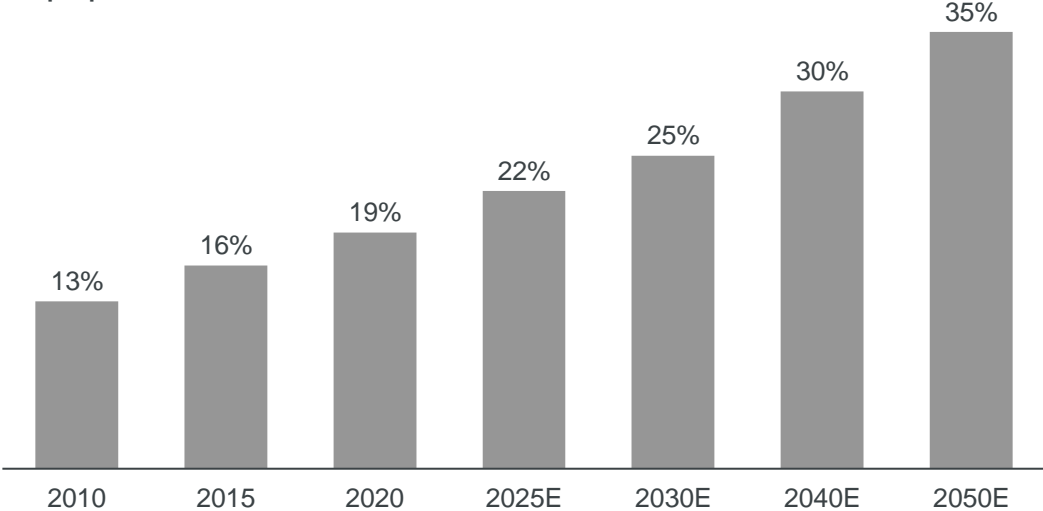
# Urbanization and aging population continue to drive E&E market development



China urbanization trend



China aging population trend  
% population ≥60

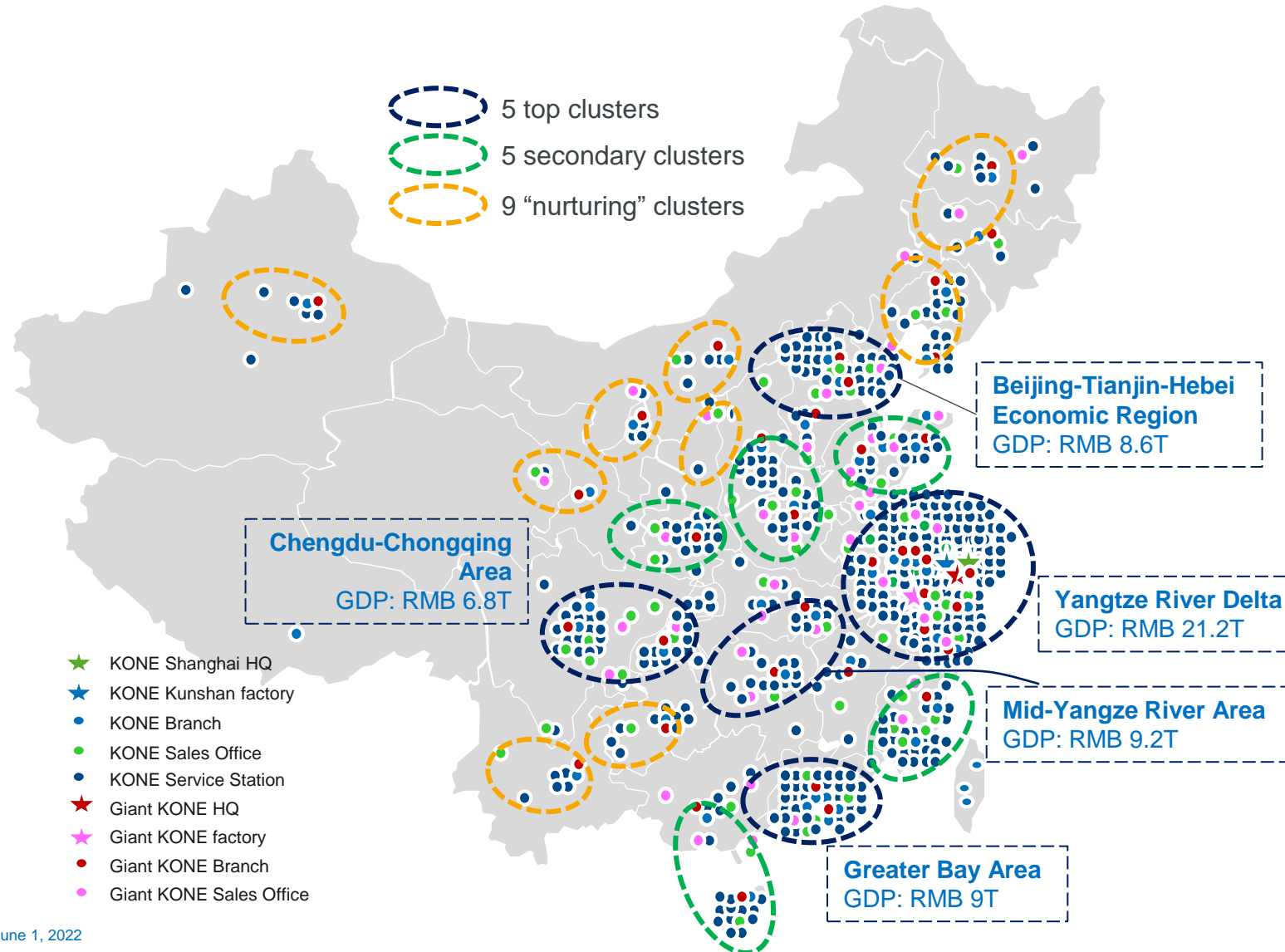


## KONE strategy

Maintain leadership in all market segments (residential, commercial, infrastructure) with competitive offerings & effective channel coverage

Source: National Bureau of Statistics, China 14th Five-year Plan, UN World Population Prospects 2017, McKinsey; Citi Bank 2020, 2030 and 2040 urbanization rates were calculated based on UN's forecasts for 2030 and 2050

# City cluster formation will drive urbanization and infrastructure investments



- Top 5 city clusters generated 58% of China's GDP in 2020
- 14<sup>th</sup> Five-year Plan targets 85% GDP contribution from 19 city clusters by 2025
- Government investments in infrastructure expected to grow 5% annually 2022-2025
- **KONE strategy:** Continue to allocate our branch operations & investments based on high growth city clusters

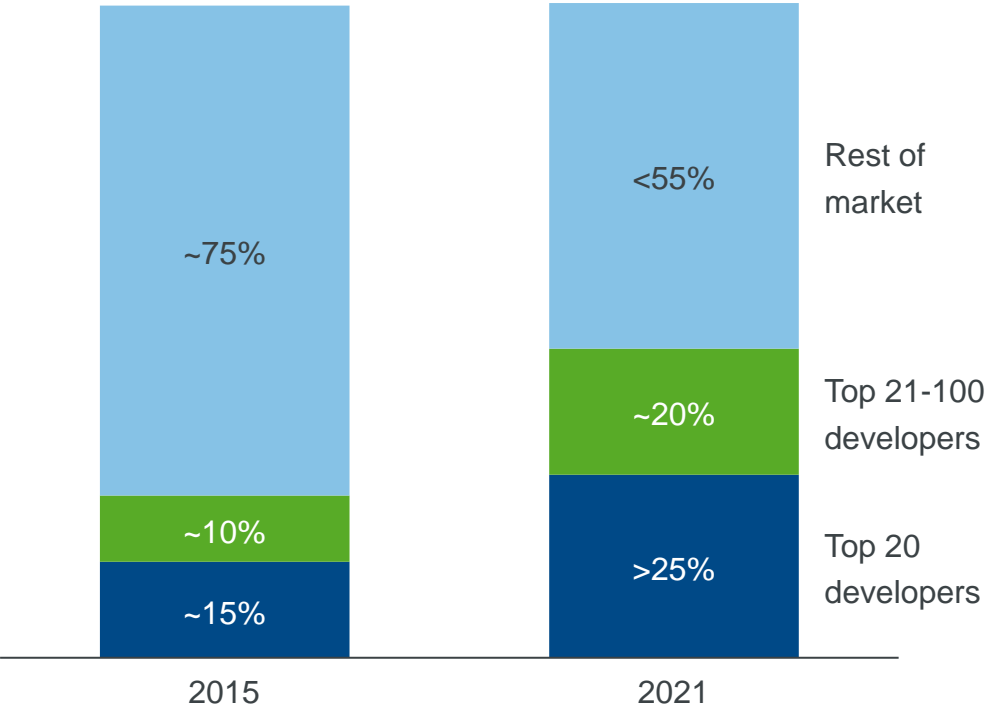


# Developer consolidation to continue - KONE has successfully increased share thanks to our success with large developers



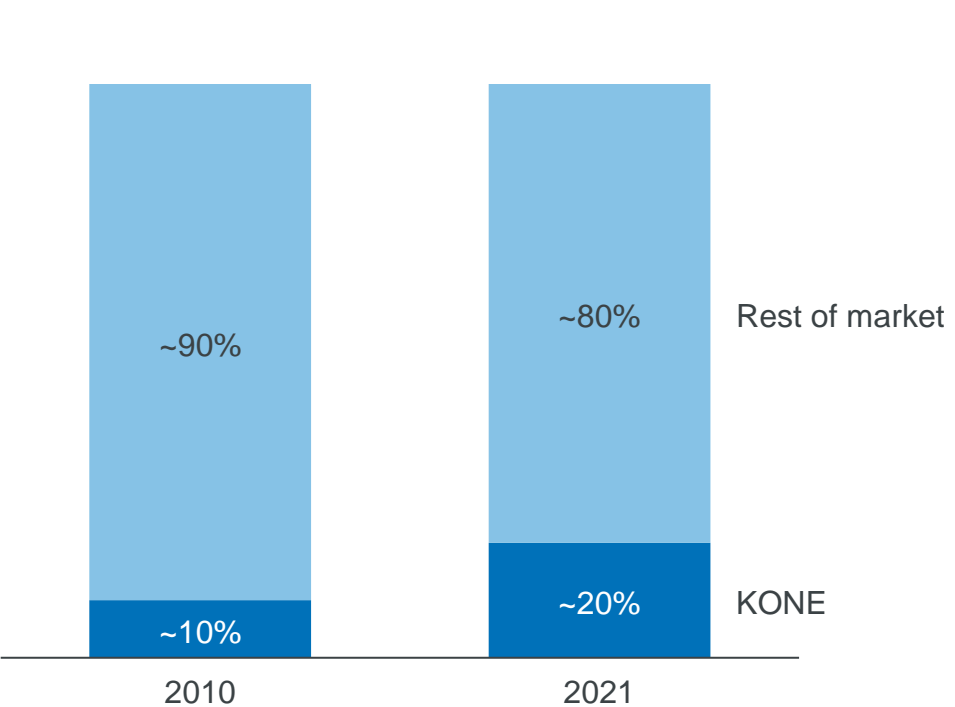
## Top developers' share has doubled since 2010

Developer sales area share, %



## KONE has grown together with its customers

New equipment market share (units), %

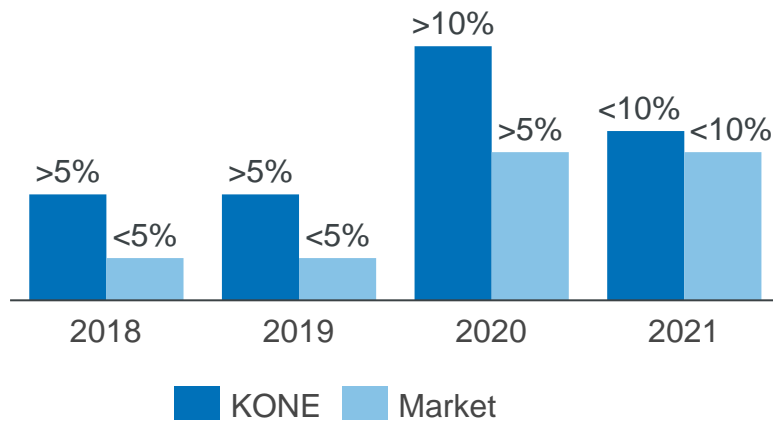


Based on KONE's estimate. Figures have been rounded.

# Though China's new equipment market is expected to decline 10-15% this year, KONE is positioned to continue to outperform the market

## Faster than market growth in new equipment

Orders received in units



## Maintaining leadership position by focusing on

### Dual brand strategy

Broad market coverage and more competitive cost position with KONE and GiantKONE brands

### Competitive and innovative offerings

Industry leading products with innovative offering and connectivity

Differentiate with installation productivity & reliability

### Extensive channel coverage

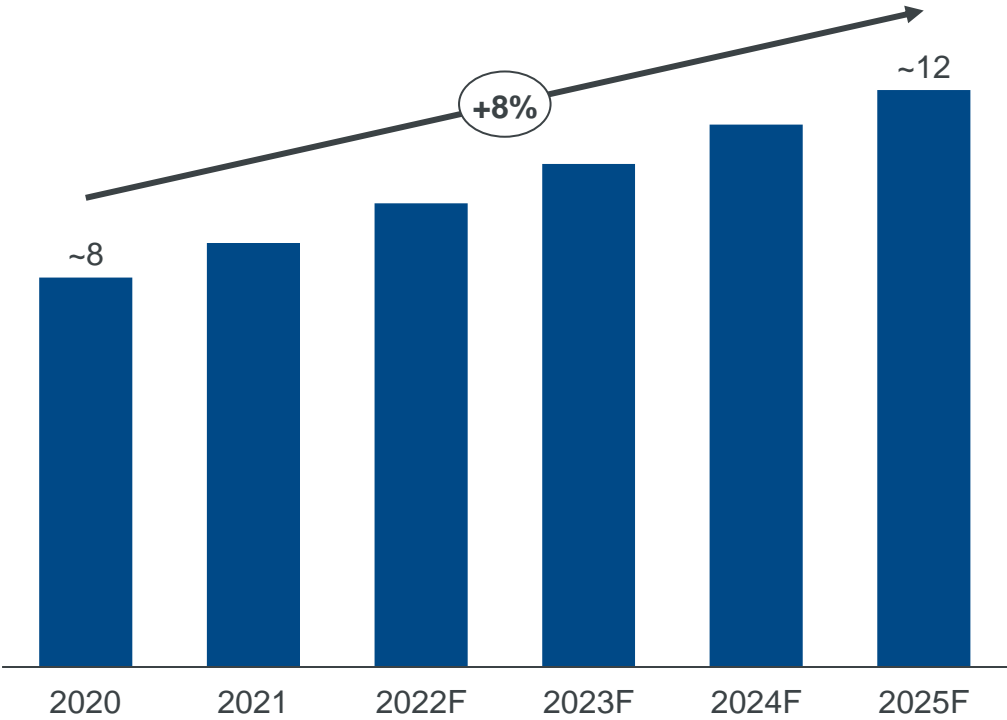
Scalable channels with >2,000 loyal partners

Prioritize resources to growing city clusters

# Maintenance is becoming an increasingly important growth driver for KONE

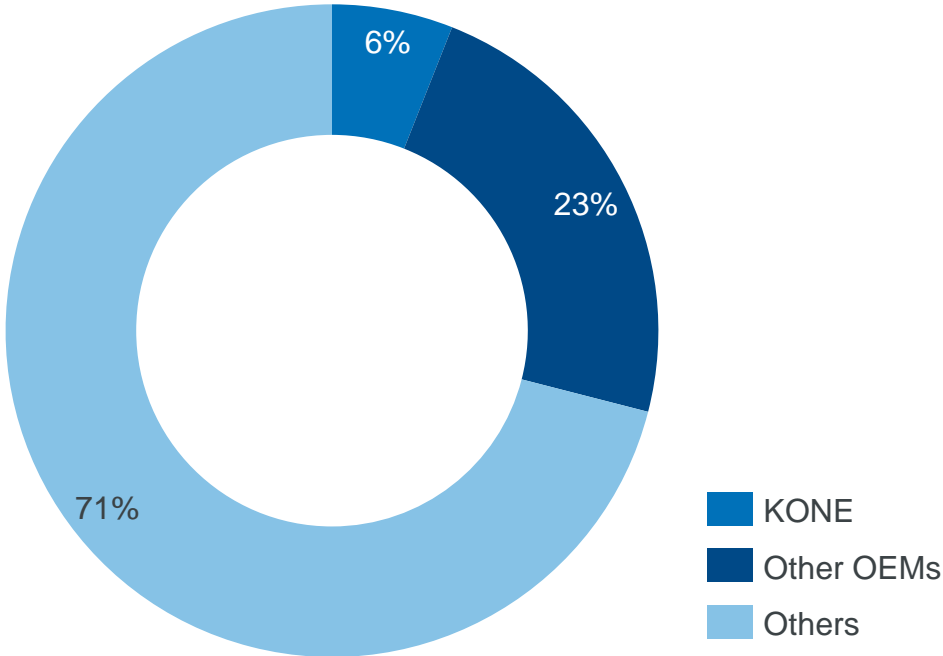


China's maintenance base is steadily increasing, today representing ~45% of the global market  
Millions



### KONE is a leader in the fragmented maintenance market

% of maintenance units, 2021



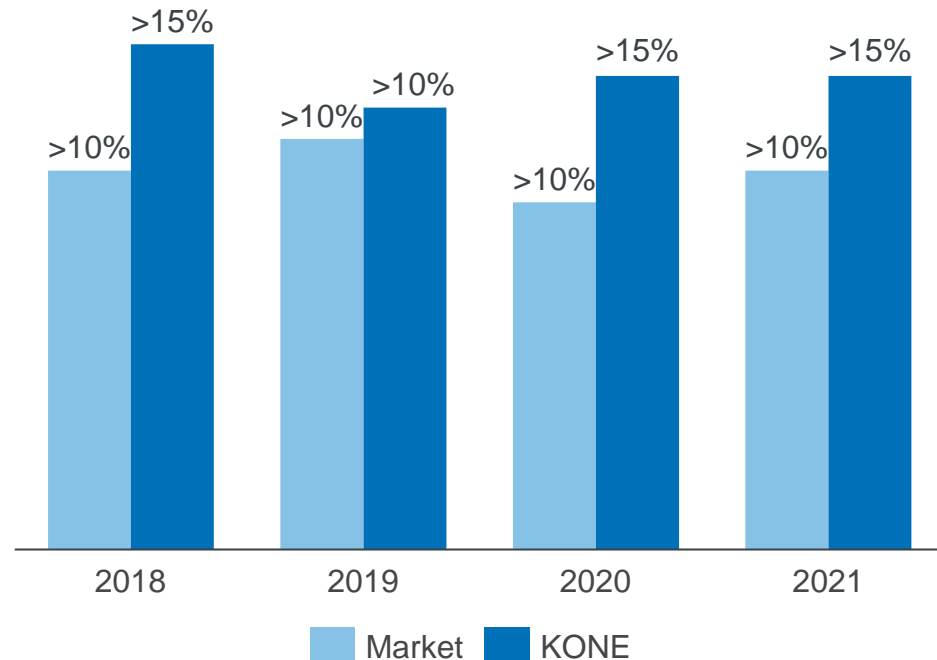
Based on KONE's estimate. Figures have been rounded.

# KONE is well positioned to continue growing faster than the maintenance market



## KONE has outpaced market growth

Maintenance unit growth



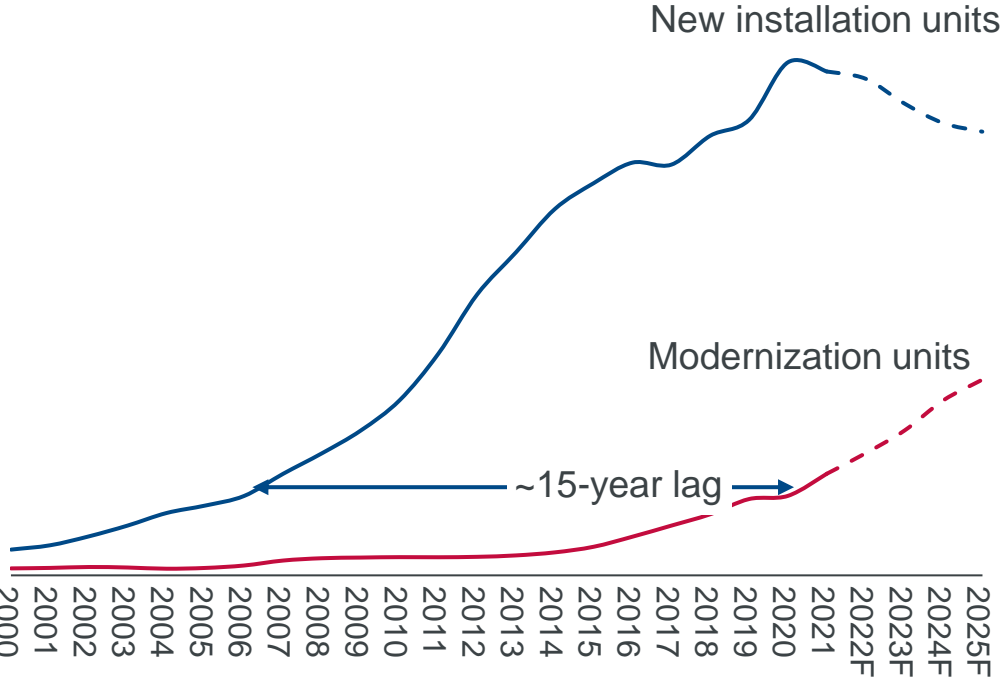
## Capturing growth in the maintenance market

- Extend service network coverage
  - >600 service depot covering all top cities & provinces
- Invest in sales network to improve conversion and retention
  - Upgrade sales teams and capabilities
- Roll out innovative & value-added services
  - 24/7 & IoT solutions to drive CBM preparedness and add value to customers
- Enhance field productivity & service quality
  - Upgrade tools & capabilities

# We expect modernization market to maintain high growth; KONE has been outpacing the market

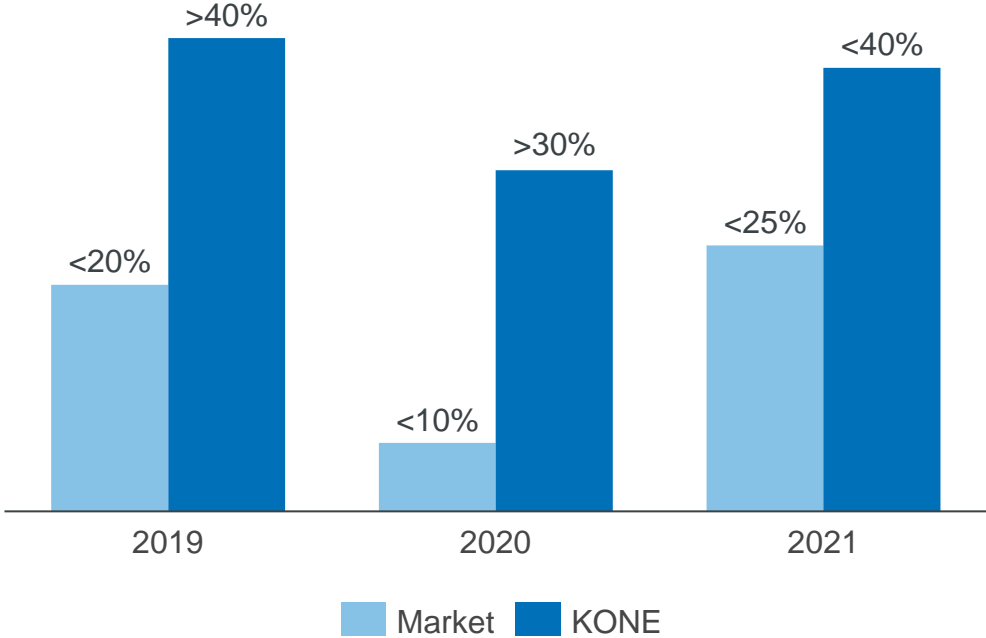


Modernization growth following new equipment growth trend



KONE outpacing modernization & full replacement market growth

Modernization (MV) growth, %





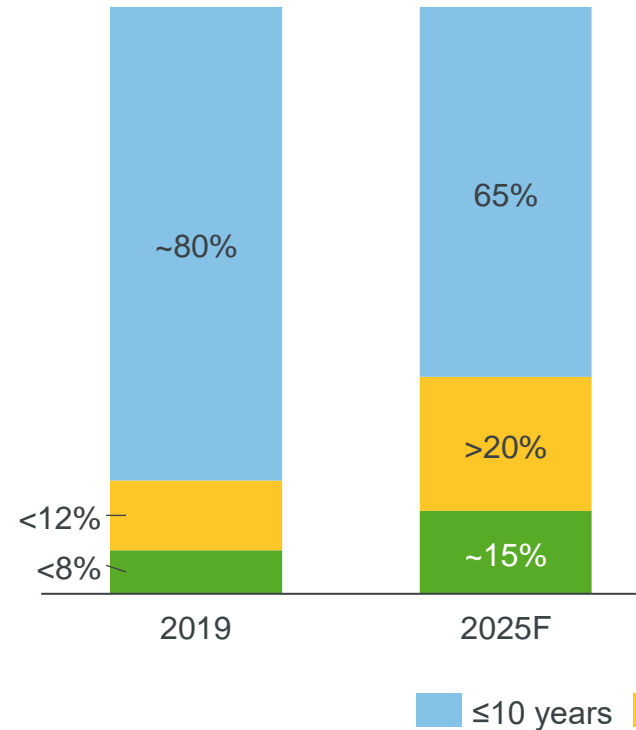
# We have been successfully modernizing non-KONE equipment; more opportunities in KONE installed base emerging



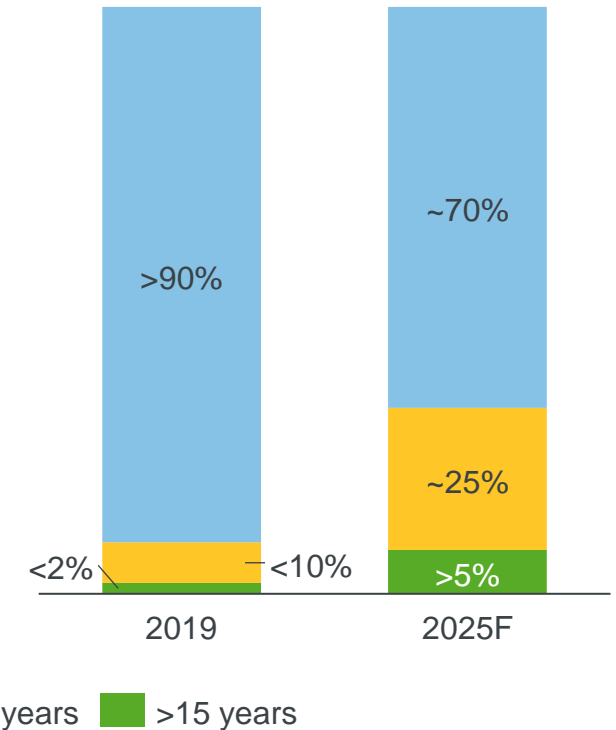
## Capturing growth in the modernization market

- Leverage opportunities provided by aging of installed base
  - 500k KONE units >10 years old by 2025
- Broaden offering portfolio
  - Customer-centric solutions for modernization segments
- Continuous expansion of sales & service network
  - >200 new channel partners in 2021

Age of total market installed base  
Indicative



KONE's installed base is still young  
Indicative



## Summary

- China E&E market mix shifting towards services
- KONE is well positioned to maintain leadership in the new equipment markets & capture growth opportunities in maintenance
- We have a strong foundation to replicate new equipment success in modernization



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