

KONE CMD 2017

# Capitalizing on our strong position in China

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# AGENDA

- › THE CHINA REAL-ESTATE MARKET CONTINUES TO OFFER MANY OPPORTUNITIES
- › THE SERVICES MARKET IS GROWING RAPIDLY
- › KONE'S NEW STRATEGY IN A CHANGING ENVIRONMENT



# KONE in China today

- **Market leader** in the world's largest elevator and escalator market with approximately 20% market share in new equipment in 2016
- **Revenue** of over EUR 2.5 billion in 2016
  - <90% new equipment, >10% services
- ~15,000 **employees** across China
- >30,000 **customers**, including 9 of China's top 10 developers



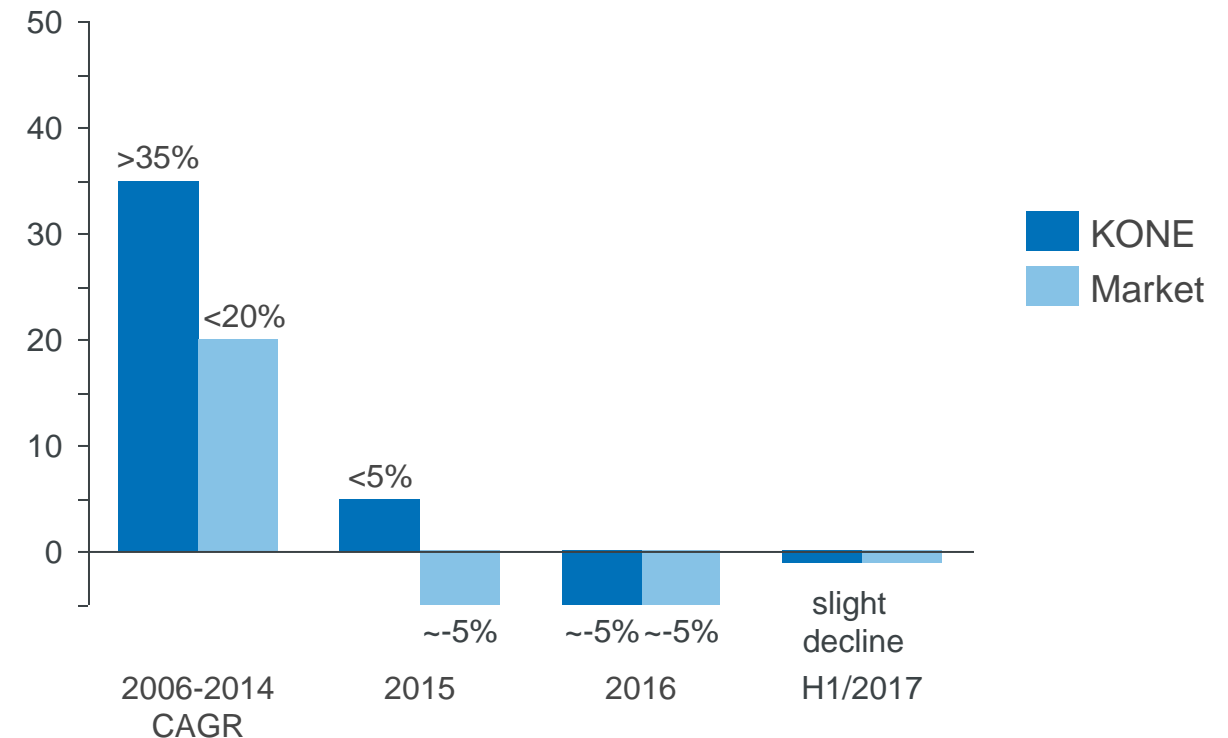
# We have solidified our presence in new equipment in a changing market environment



- We have maintained our strong market share
- Our strategy has been to maximize value through an optimal balance between volumes, pricing and product mix
- This year, we have been able to stabilize pricing with focused pricing actions and improved our product mix vs. end of 2016

## KONE's new equipment orders received in China vs. market development

(units)

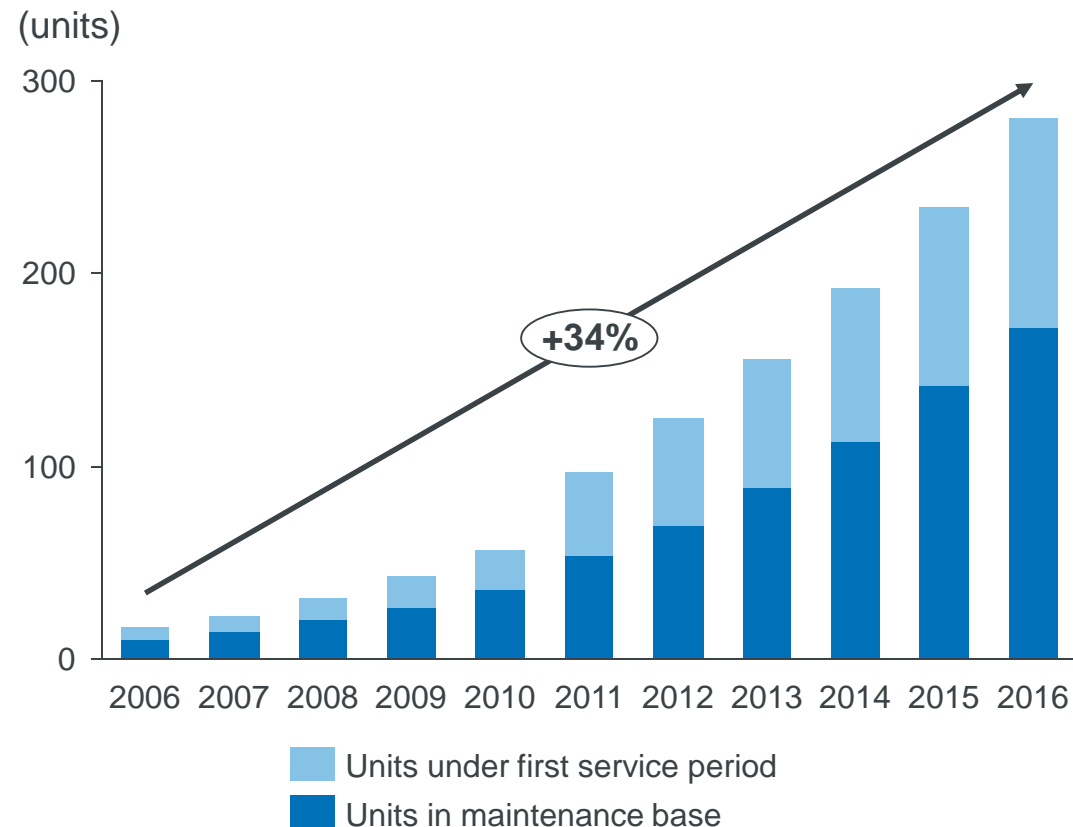


# Our service business continues to grow at a solid double-digit rate



- The maintenance base has continued to grow robustly
  - The high level of new equipment deliveries provides a pipeline for continued growth through conversions
- 24/7 Connected Services gaining momentum
- Modernization business has grown at a CAGR of ~30% for the last three years

## Our maintenance base and units in first service



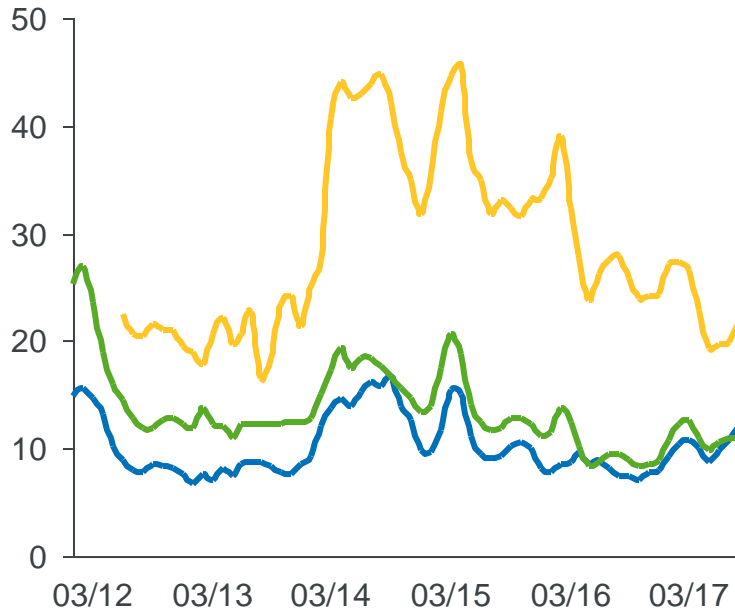
An aerial night view of a dense city skyline, likely in China, with numerous high-rise buildings illuminated by lights. The left side of the image is overlaid with a semi-transparent blue filter.

The China real-estate market continues to offer many opportunities

# Due to fast price growth, restriction measures have been implemented to cool the housing market

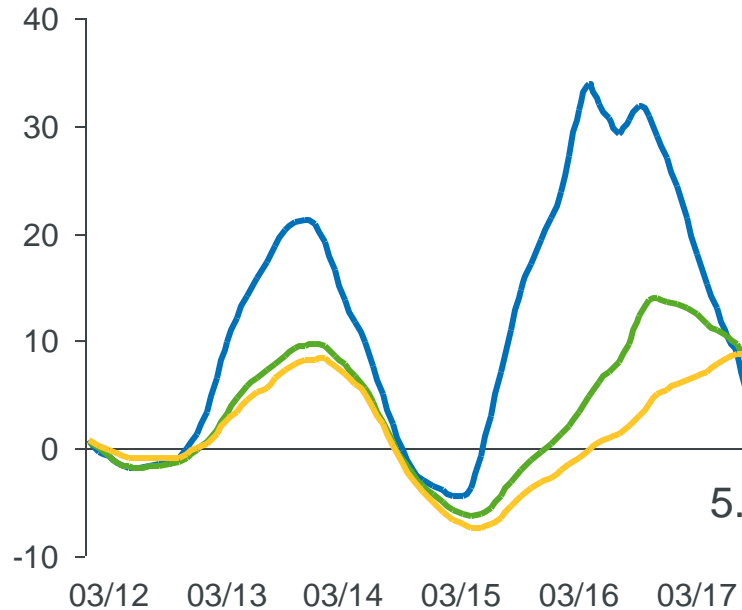
## Inventory levels have declined in the lower-tier cities

Newly built area for sale / monthly sales 3-month rolling avg



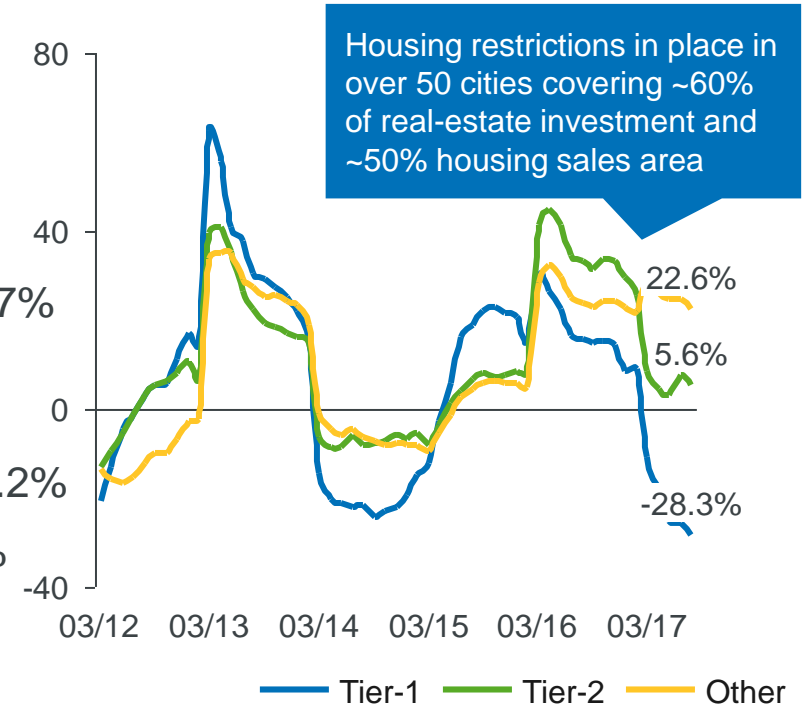
## Housing market remains strong

Price / square meter y-o-y growth (%)



## Property sales area has declined in the higher-tier cities

Sales area y-o-y growth (%)



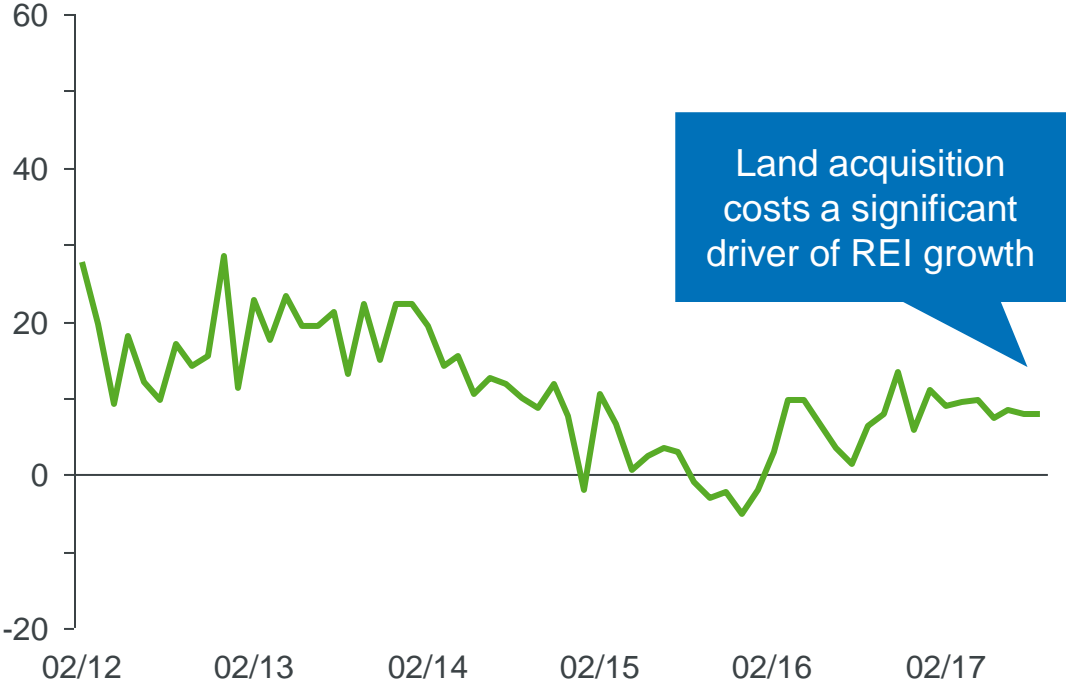
**Underlying fundamentals point to a healthy market, but government policy will decide short-term cycles**

# Real estate investment has been driven by increasing construction activity as well as rising land prices



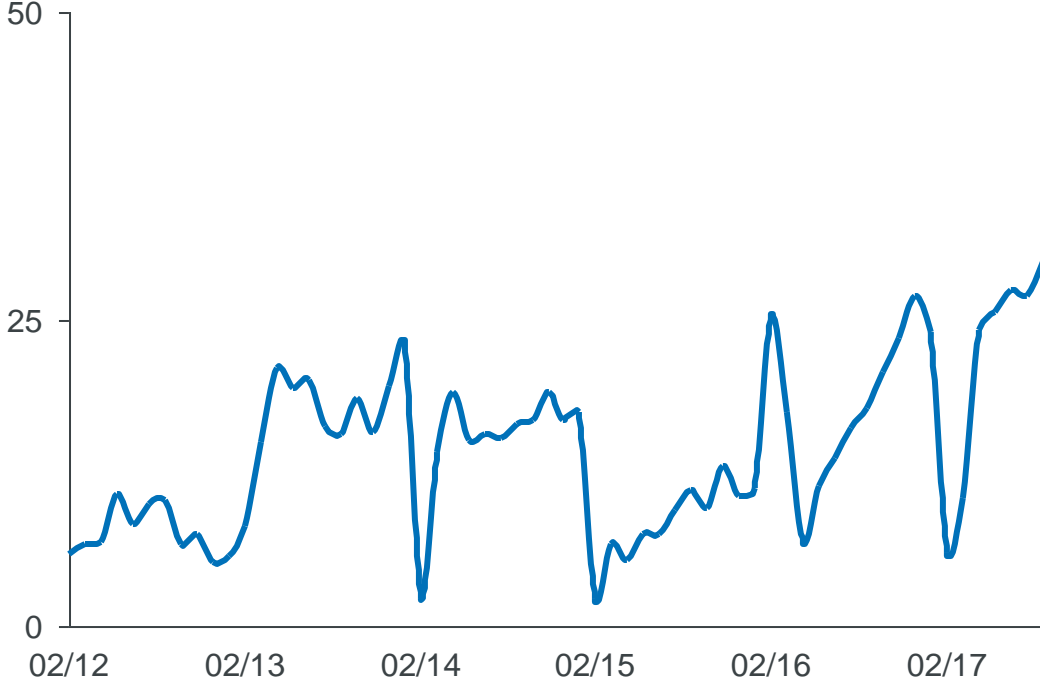
## Real-estate investment

y-o-y growth (%)



## Nationwide land transaction price (RMB/sqm)

y-on-y growth (%)



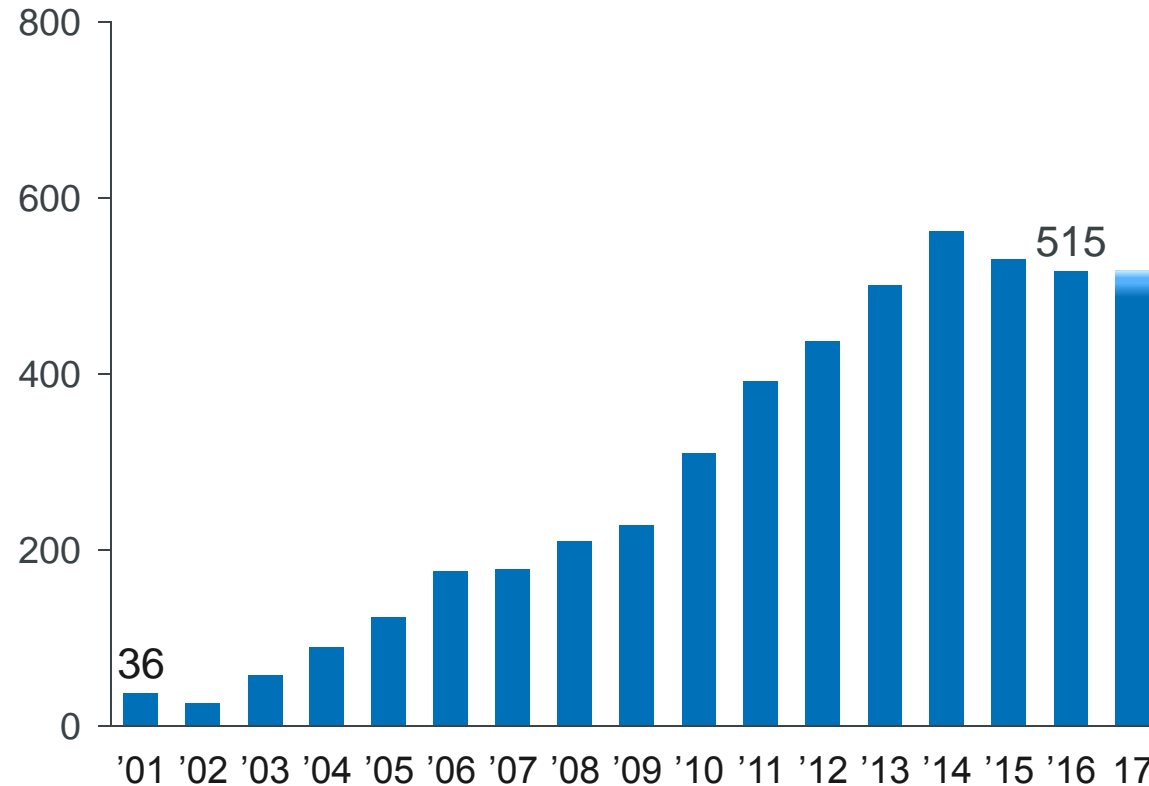


# We expect the new equipment market decline to moderate in 2017



## New equipment market orders 2001-H1/2017

('000 of new equipment units)



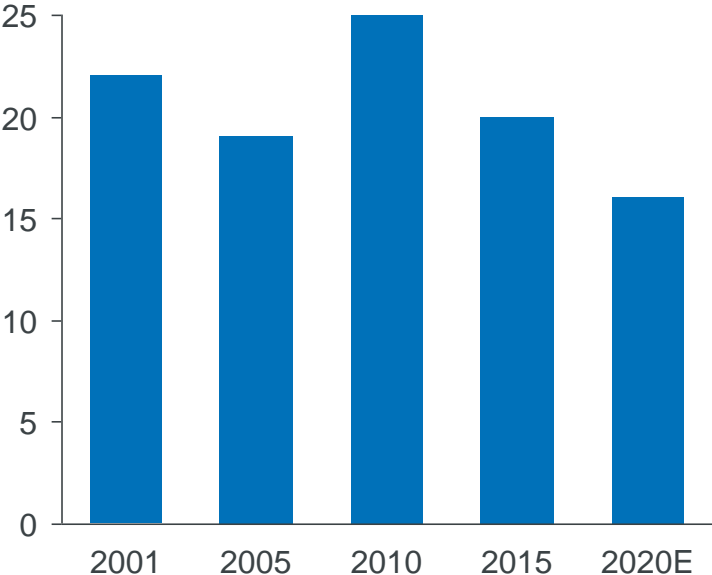
- We expect the Chinese new equipment market to decline by 0-5% in units ordered in 2017
- Competition is expected to remain intense in 2017. Mix shift and pricing stabilized sequentially in Q2/2017
- 2018 development will depend on potential government policy this year, including impact on housing policies and raw materials

# We are confident on solid demand in the long-term as upgrading and renewal balance slower new urbanization



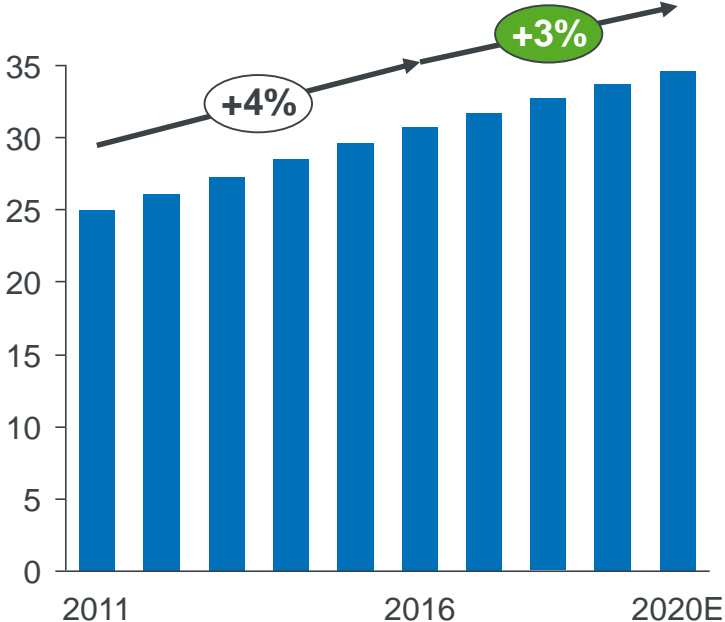
## Urbanization

New urban citizens per year millions



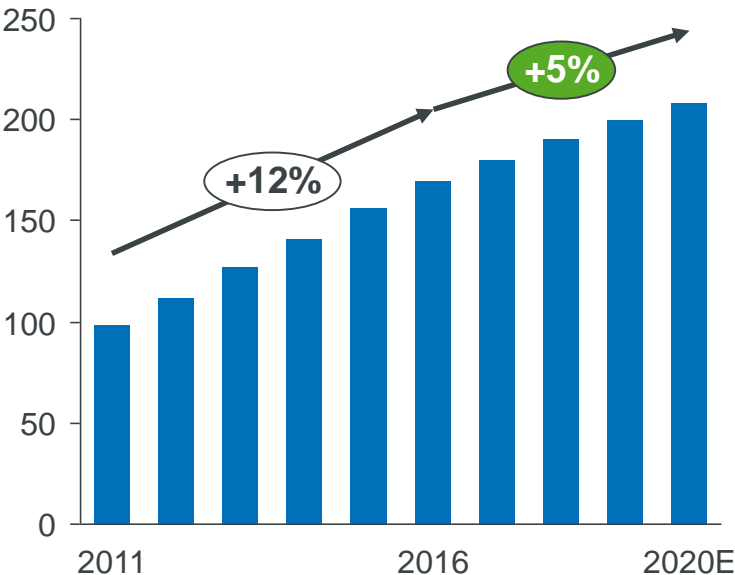
## Upgrading

Urban residential floor space per capita sqm



## Urban renewal

Elevator density (units / Mn sqm)

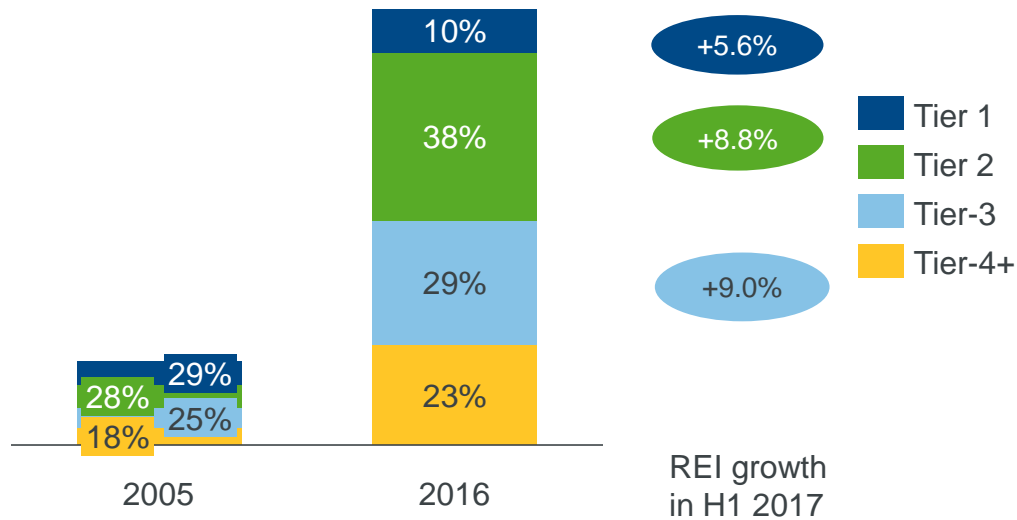


Source: National Bureau of Statistics, KONE estimates

# Lower-tier cities are growing in importance

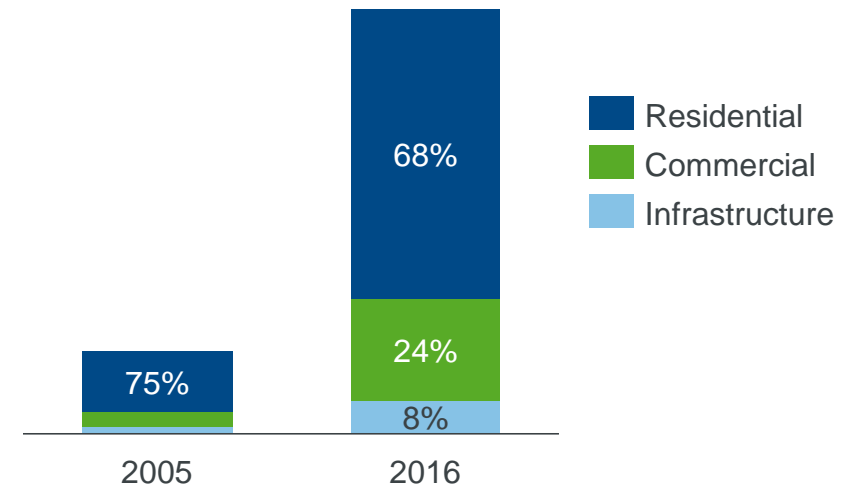
## New equipment market demand by city tier

( in units)



## New equipment market demand by segment

( in units)



### Market trends

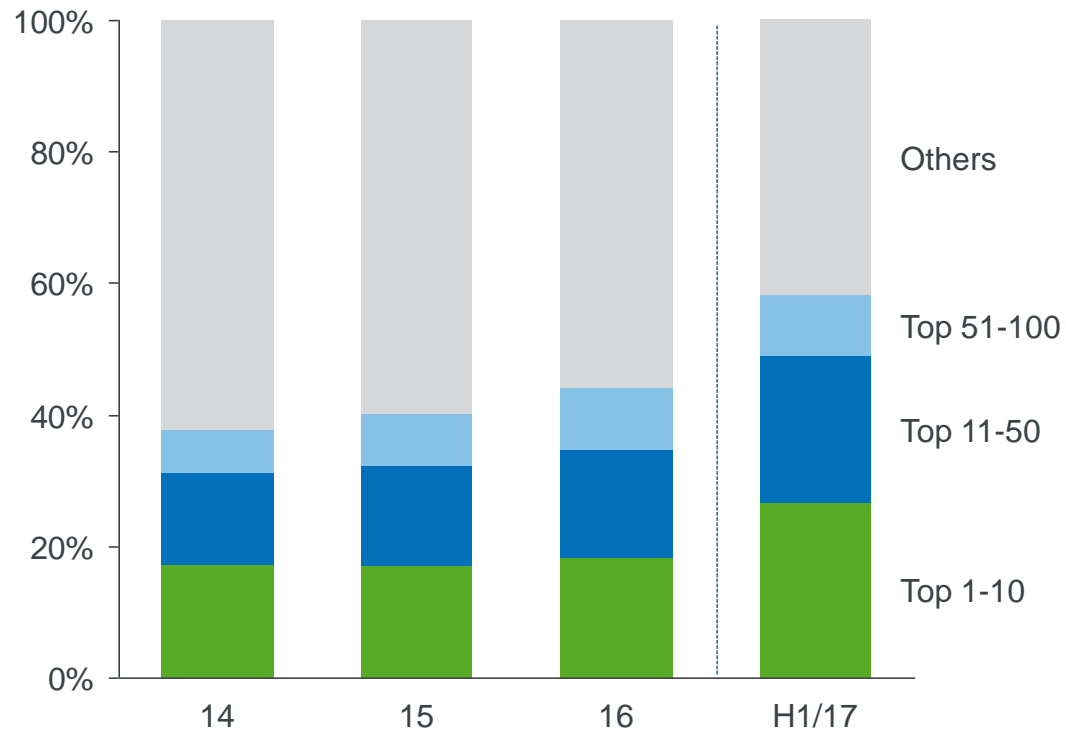
- Lower-tier cities close to Tier-1 and major Tier-2 cities forming hubs
- Also new hubs developing around certain lower-tier cities
- Large property developers constructing satellite cities

### Market trends

- Government continues to invest heavily in infrastructure
- The trend of hubs and towns drives demand of both residential and commercial segments
- Emerging residential rental market

# Our customers are consolidating and the role of big developers is growing

## Property sales split by developer size (in monetary value)



Source: CRIC, National Bureau of Statistic

- Largest developers are gaining share
  - Prefer working with established OEMs
  - More pricing power on the other hand
- Big developers look for new ways to differentiate from competition
- Higher land prices and raw material costs put pressure on developers:
  - Look for ways to speed up construction
  - Strive to build taller buildings
  - Look for cost efficiencies

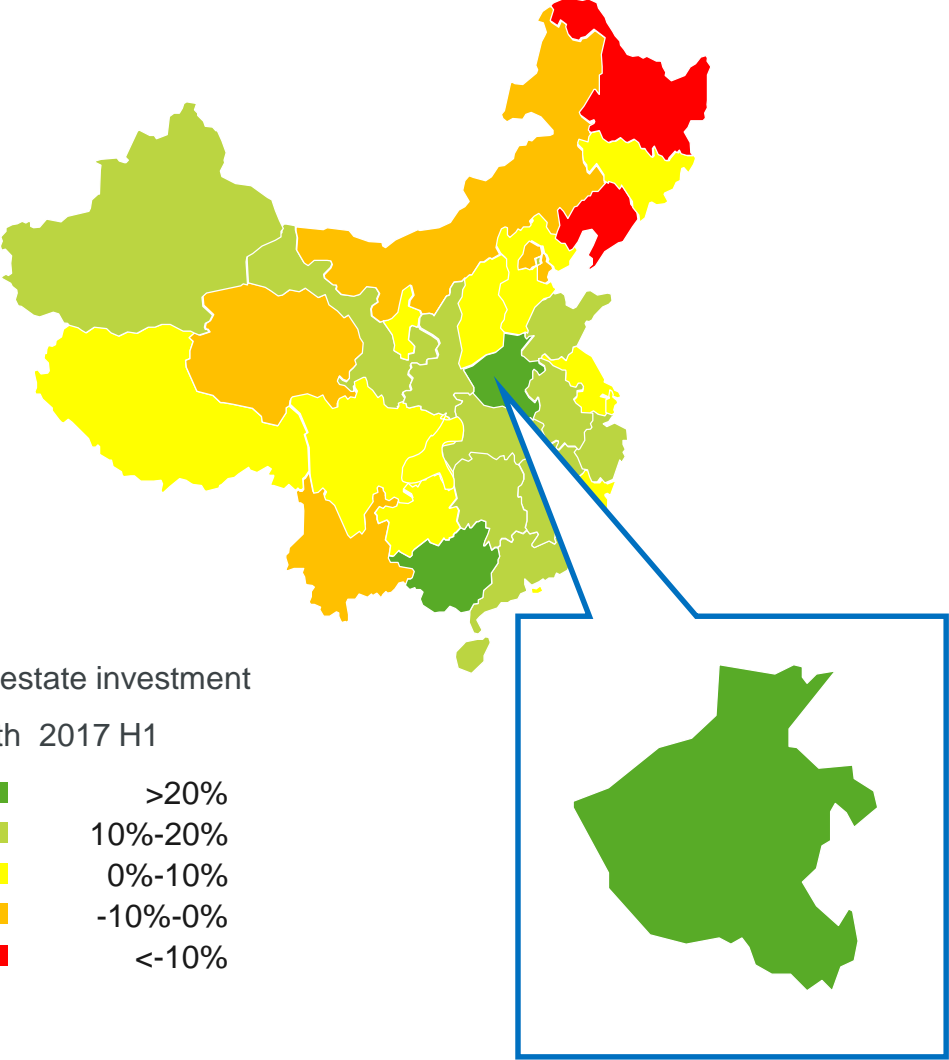
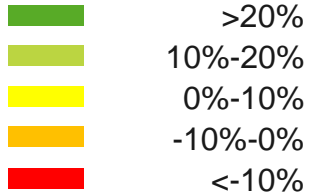
# Selected geographic areas are still growing - case Henan



## Key facts on Henan province

- Population: 94.36 million: 7% of China total
- Urbanization rate in 2016: 48.5%. Target: 60% by 2020
- H1/17 GDP RMB 2030bn, 5.3% of China GDP, up 8.2% y/y vs 6.9% in China
- Real estate investment growth rate H1/17: +22.9% y/y vs +8.5% in China
- For full year 2016, new E&E orders estimated to account for >4.7% of total China market

Real estate investment growth 2017 H1



Source: National Bureau of Statistics

An aerial night view of a dense city skyline, likely in East Asia, featuring numerous high-rise buildings with illuminated windows and balconies. The scene is captured from a high angle, showing the intricate patterns of the urban landscape. A semi-transparent blue overlay covers the left side of the image, containing white text.

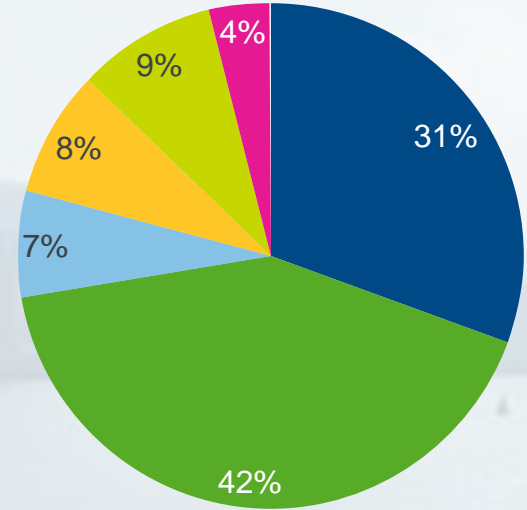
The services market is  
growing rapidly

# China is now the world's largest E&E market by installed base and will continue to grow driven by new equipment



## China has the world's largest installed base by far

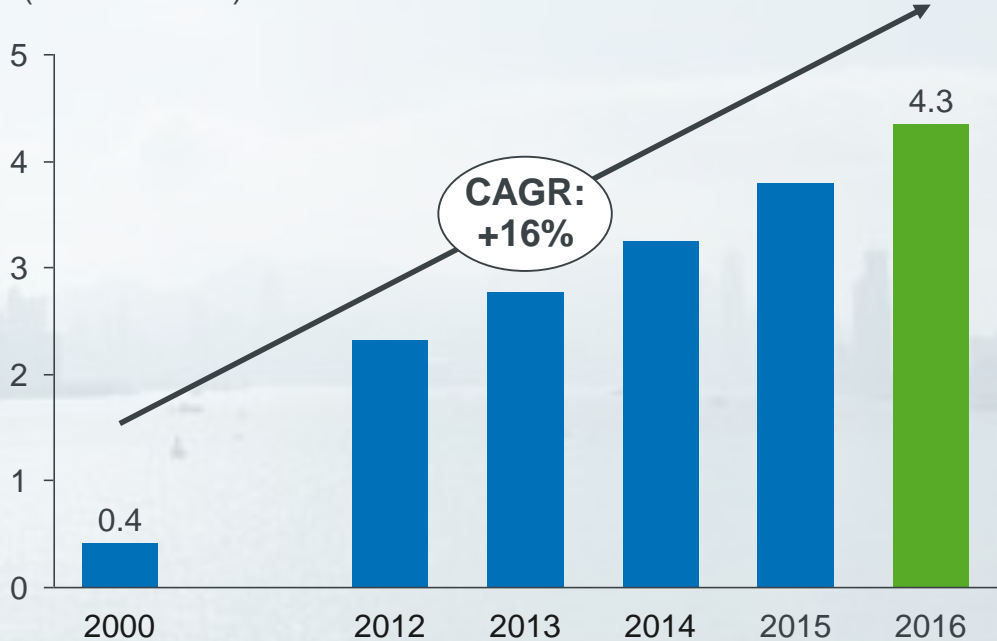
(in units)



- China
- EMEA
- Rest of Asia-Pacific
- North America
- Japan&Korea
- South America

## China's elevator and escalator base is growing in double digits

('000 000 units)

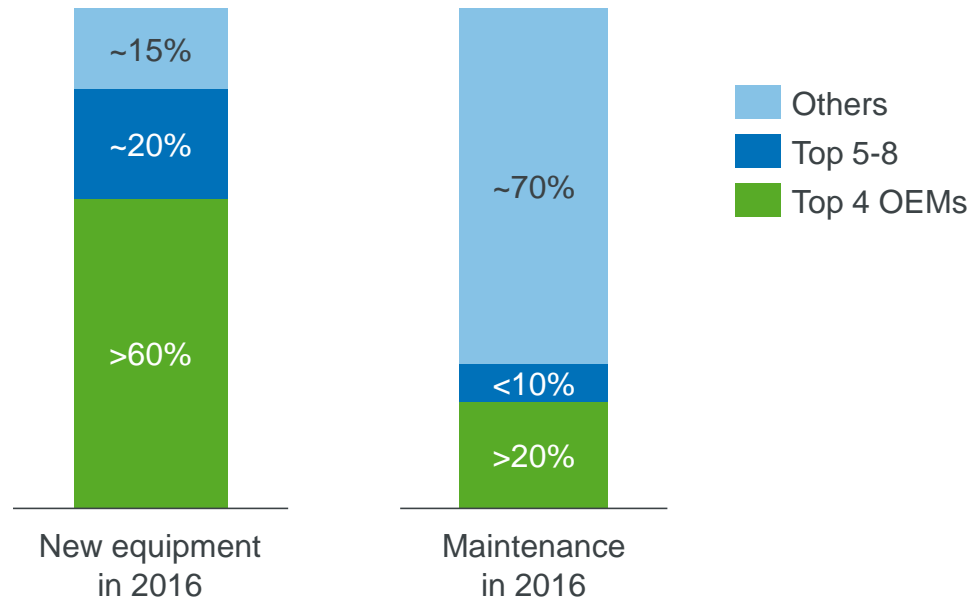


Source: KONE estimates

# Maintenance market remains fragmented – yet opportunities exist for market share gains

## The maintenance market remains fairly fragmented

(market share split in new equipment and maintenance in UN)



## We believe we can improve our position in maintenance despite tough competition

- Customers remain sensitive to price in majority of market
- Digitalization, IoT, 24/7 are increasingly important to larger customers – still early days
- We see an opportunity to strengthen our position in the maintenance market through continued introduction of new technologies and services

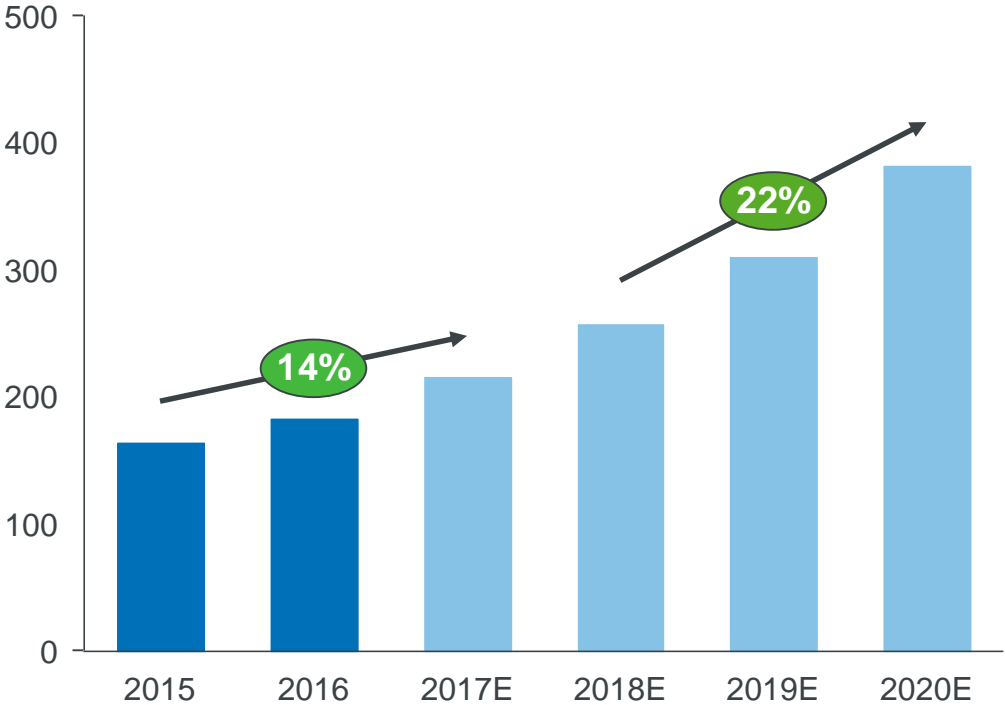


# Modernization is an increasingly interesting opportunity

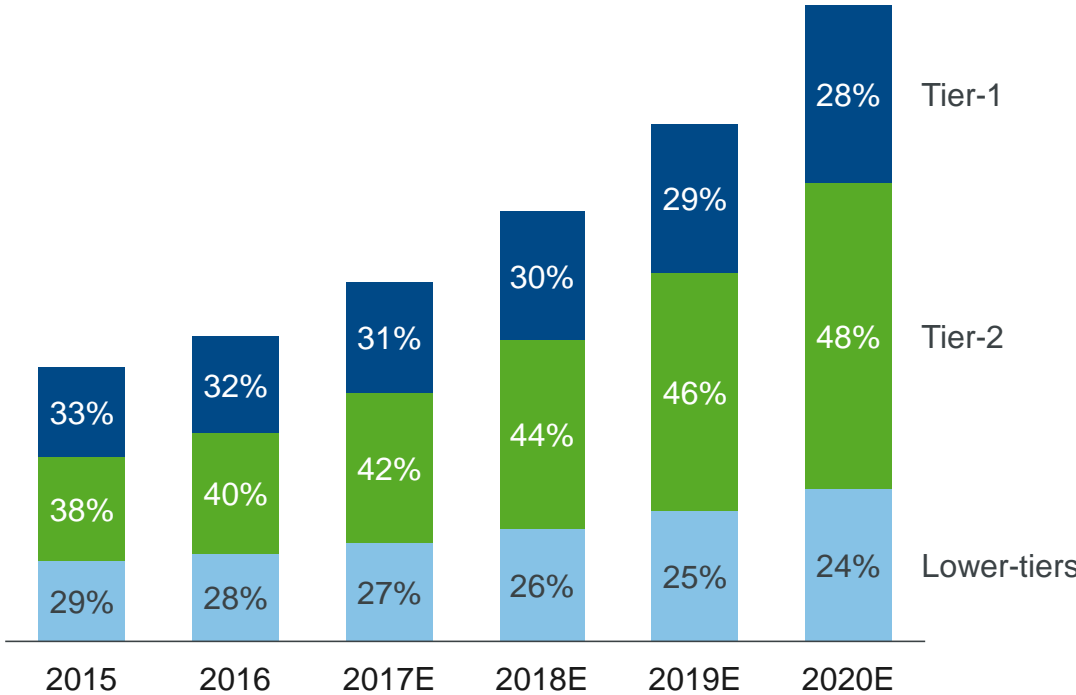


## Number of units older than 15 years expected to grow significantly faster than in past years

('000 units)



## The clear majority of the old installed base is expected to be in the higher-tier cities

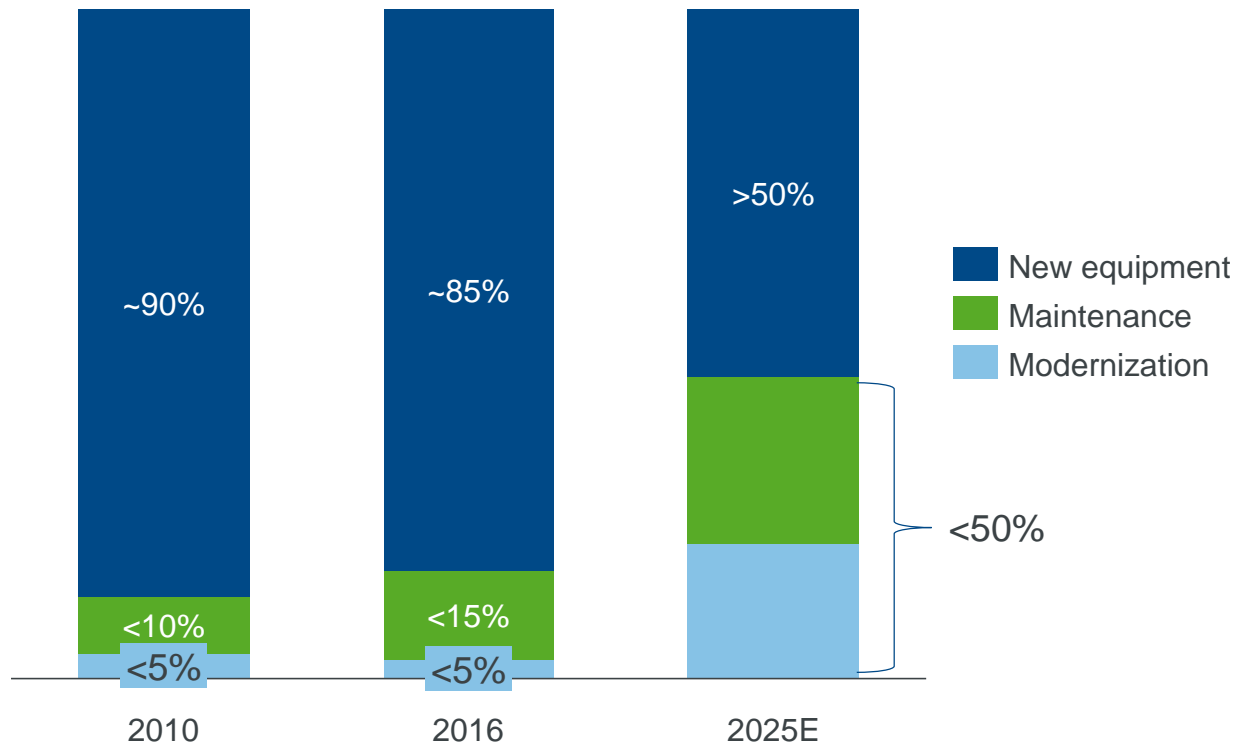


Based on KONE estimates

# The market in China will shift more towards services with new equipment remaining a significant part of the market



Chinese market split by business in monetary value could potentially look like this in 10 years



Based on KONE estimates

An aerial night view of a dense city skyline, likely Hong Kong, with numerous high-rise buildings illuminated by city lights. The left side of the image is overlaid with a semi-transparent blue filter.

KONE's new strategy  
in a changing  
environment

# China is digitalizing at an incredible speed



## Ancient China was at the forefront of innovation



Papermaking



Gunpowder



Compass



Movable-type printing

## China continues to lead the way in the 21<sup>st</sup> century



High-speed rail



Bike-sharing



Alipay

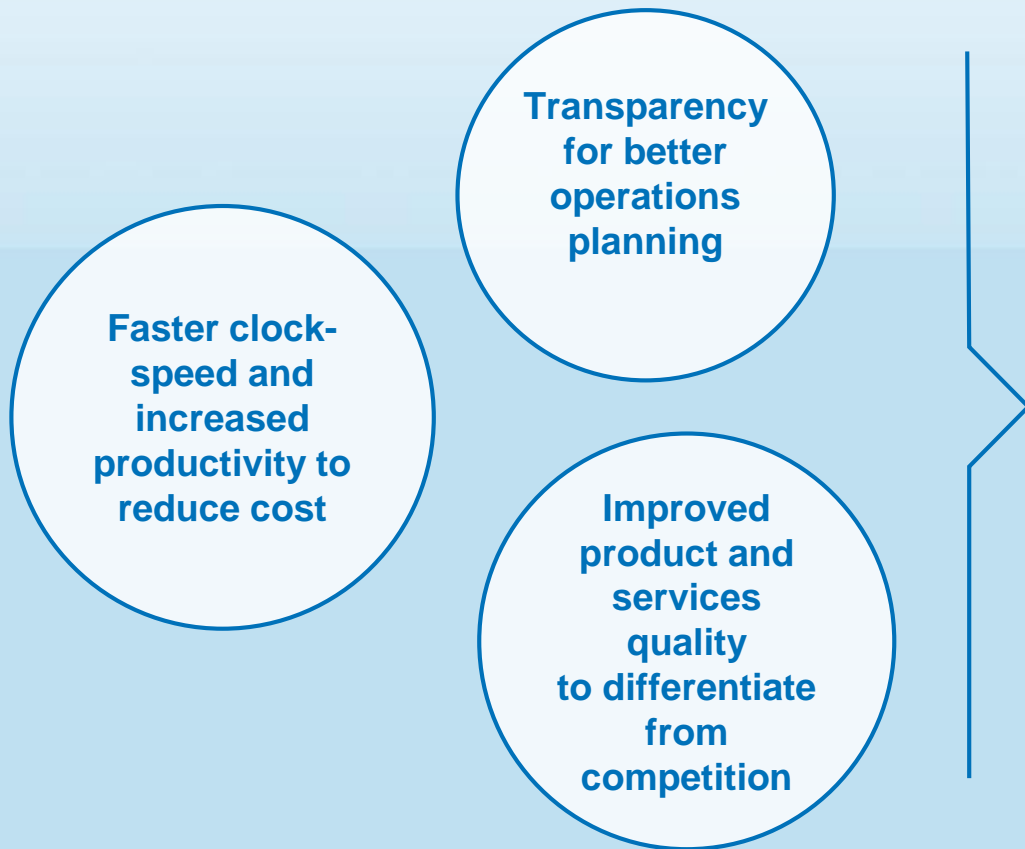


Online shopping

# Technological disruption has permanently upgraded customer expectations and ways of working



## What our customers want



## What are our customers doing to achieve it

Investing into new solutions and services that focus on end-user experience

Using digital platforms to manage and control operations

Standardizing offering and processes to gain scale and productivity



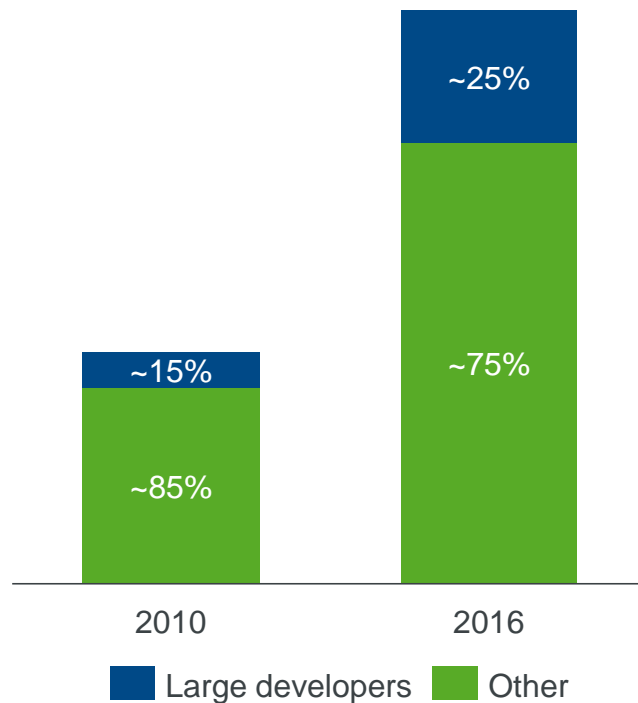
# Winning with Customers in China

# We are increasing our focus on the large property developers



## Large developers' share of KONE's orders received

(in terms of units)



## What are we doing to offer added value to large developers?

- Creation of customer-oriented solutions that help our developer customers save money and differentiate from their competitors
- Further improved service level in project planning and sales
- Focus on increased speed and quality

# Our 24/7 Connected Services have been introduced with good momentum

- **24/7 Connected Services** roll-out started in Q2/2017
- Good customer adoption with several thousands of equipment connected to the IBM cloud
- Positive initial customer feedback being used to further develop value-adding features

**New KONE Care will be introduced more broadly in China in 2018**



**KONE opened a remote-monitoring center in Kunshan in 2017**



# We are developing our processes to make customers' lives easier and taking action to improve productivity

## Key focus areas for productivity improvement

- Full implementation of KONE's scaffold-less installation method
- Improved subcontractor performance and cost management
- Focus on increased installability of products in all existing and new products
- Harmonization between KONE and Giant KONE
- Continued improvement in manufacturing productivity

**Scaffoldless installation**

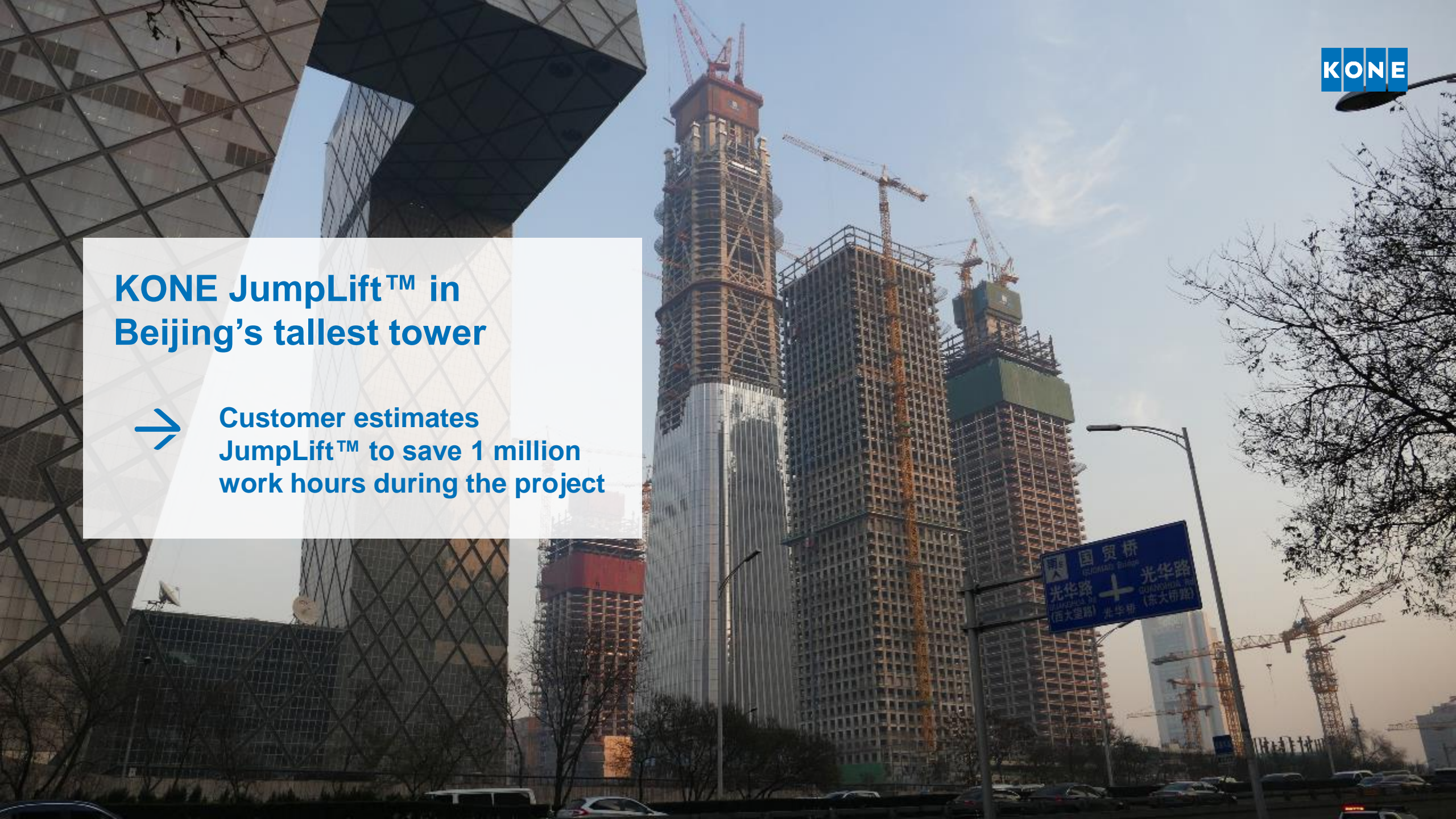
30%  
reduction in  
installation  
time

Improved  
site quality  
& safer  
working  
environment

## KONE JumpLift™ in Beijing's tallest tower



Customer estimates  
JumpLift™ to save 1 million  
work hours during the project



# We are further strengthening our capabilities in modernization



- Stronger sales management and customer communication
- New processes and tools to make projects simpler, easier, and faster
- Dedicated Chinese engineering center
- New offering to suit Chinese market needs
- Focus on training field personnel and sharing best practices with other regions

➔ **KONE's modernization solutions maximize building value and minimize disruption**

## We are excited about our future in China!

- We are capitalizing on our strong position in both new equipment and services
- The share of service business will continue to grow
- We will continue to improve competitiveness in line with our new strategy



Dedicated to People Flow™

