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Otis Worldwide Corp. (OTIS)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Otis Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Michael Rednor, Senior Director of Investor Relations. Please go ahead.

Michael Rednor

Senior Director, Investor Relations, Otis Worldwide Corp.

Thank you, Michelle. Welcome to Otis' second quarter 2022 earnings conference call. On the call with me today are Judy Marks, Rahul Ghai and Anurag Maheshwari. Please note, except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring and significant non-recurring items. A reconciliation of these measures can be found in the appendix of the webcast.

We also remind listeners that the presentation contains forward-looking statements, which are subject to risks and uncertainties. Otis' SEC filings, including our Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

With that, I'd like to turn the call over to Judy.

Judith F. Marks

Chair, Chief Executive Officer & President, Otis Worldwide Corp.

Thank you, Mike, and thank you, everyone, for joining us. We hope everyone listening is safe and well.

I'd like to welcome Anurag Maheshwari and joining us this morning. Anurag is an experienced executive that many of you have worked with in his prior role leading Investor Relations at Harris. More recently, he's been leading our finance team as CFO in the Asia Pacific region since spin. I look forward to my partnership with Anurag in driving growth, operational execution and value for our customers, colleagues and shareholders.

I want to also take this opportunity to thank Rahul for his leadership and all of his contributions in transitioning Otis to an independent company and in championing our long-term strategy. We wish him well in his future endeavors.

Before I get into the results and outlook, on our Q1 call, we noted our growing concerns about the long-term sustainability of our operations in Russia. At that time, we removed Otis' Russian operations from our 2022 outlook and prior year compares. Amidst mounting regulations, we concluded that the best solution for our customers, colleagues and shareholders was to divest this business. And we recently entered into an agreement to do so.

Closing of the transaction is expected imminently. We remain hopeful for a return to peace and stability in the region, and we will continue to contribute to the ongoing relief and humanitarian efforts in Ukraine. This quarter and going forward, Otis' Russia operations and related non-recurring charges are excluded from our adjusted results, prior year compares and our outlook.

Moving to Q2 highlights on slide 3, Otis delivered a solid second quarter, closing out a strong first half, especially considering the macro headwinds that we faced. We grew organic sales, expanded margins and achieved 12% adjusted EPS growth. We had record New Equipment bookings and continue to build our maintenance portfolio that was up nearly 3.5% in the quarter. Our Service business continued to deliver this quarter where we grew sales in all lines of business and expanded margins due to favorable pricing and productivity.

We generated $326 million in free cash flow, while continuing to return cash to shareholders, completing another $200 million in share repurchases on top of the $200 million completed in Q1. In addition, as expected, Zardoya Otis was delisted in early may.

We gained approximately 1 point of New Equipment share in the second quarter, driven by high teens New Equipment orders growth for Otis in a market that was down mid-single digits globally. New Equipment orders in the Americas were particularly strong, up 57% despite facing a difficult compare in the prior year.

In Los Angeles, we're supporting the modernization of Terminal 4 at LAX. Otis was elected to provide 13 Gen3 elevators, further extending the long-term relationship with the general contractor, Hensel Phelps, and marking our latest project at LAX.

In Paris, Otis was selected to support the construction of the Tour Triangle, a 180-meter high tower that will include office, hospitality and retail spaces. During the construction phase, an Otis SkyBuild self-climbing elevator will ascend as the floors are built, providing speed and simplified logistics to the building's construction teams.

The building is designed to meet several environmental standards that Otis will help support by providing space-saving, digitally native solutions like our Gen360 platform, SkyRise double-deck elevators and Compass 360 destination dispatching.

In South China's Greater Bay Area, Otis is supporting several projects to fuel smart city development. In Guangzhou's Canton Fair Complex, we will provide more than 140 SkyRise and Gen3 elevators as well as escalators for Phase 4 of the Canton Fair Complex, including IoT systems that will monitor performance in real time.

In Shenzhen, the new China Life Insurance Tower in the Central Business district will be served by 20 Otis SkyRise elevators. And in Zhuhai, Otis will provide nearly 90 elevators and escalators for the Nanping Royal Times Square. This project will include Gen3 elevators equipped with Otis' latest Ambiance features and digital technologies serving passengers headed to offices, shopping centers and hotels.

And lastly, in Korea, Otis was selected to provide more than 45 elevators and escalators in the Teacher's Pension Tower, a landmark building in the financial district of Seoul. This project will include our Compass 360 destination dispatching system to seamlessly move tenants between nearly 50 floors.

Moving to slide 4, Q2 results and 2022 outlook. New Equipment orders were up 16.5% at constant currency in the second quarter and up 8.5% on a rolling 12-month basis. Organic sales were up 0.4% and adjusted operating profit margin expanded 20 basis points and was up $16 million at constant currency, driven by strong performance in the Service business. Free cash flow conversion was robust at 102% of GAAP net income.

Looking ahead to our 2022 outlook, we're revising our full year outlook and now expect organic sales growth of 2.5% to 3.5%, with net sales in the range of $13.6 billion to $13.8 billion. Adjusted operating profit is expected to be in a range of $2.1 billion to $2.2 billion, up $120 million to $150 million, excluding the impacts from foreign exchange. After approximately $145 million in headwinds from foreign exchange translation, adjusted operating profit at actual currency is expected to be up $5 million to down $25 million.

Adjusted EPS is expected in a range of $3.17 to $3.21, up 7% to 9% versus the prior year. Lastly, we still expect free cash flow to be robust at about $1.6 billion or approximately 125% conversion of GAAP net income. We will remain disciplined and balanced on capital allocation, advancing our bolt-on M&A strategy where it makes sense and returning cash to shareholders through dividends and share repurchases, which we're now in a position to increase to $700 million versus the $500 million target announced previously.

With that, I'll turn it over to Rahul to walk through our Q2 results in more detail.

Rahul Ghai

Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

Thank you, Judy, and good morning everyone.

Starting with second quarter results on slide 5, net sales of $3.5 billion were down 5.8%, primarily due to broad strengthening of the US dollar. Organic sales were up 40 basis points, the seventh consecutive quarter of growth, driven by Service, which increased over 5%.

Adjusted operating profit was down $21 million. Excluding the impact of translational foreign exchange, adjusted operating profit was up $16 million at constant currency. Drop-through on higher Service volume, favorable Service pricing and benefit from productivity in both segments was partially offset by the impact of commodity price increases and annual wage inflation.

We also continued our unrelenting focus on cost containment. And adjusted SG&A expense was down over $50 million or 90 basis points as a percentage of sales, even with inflationary trends in the economy. Despite the challenging environment, we maintained the investment in the business, and R&D spend and other strategic investments were flat versus the prior year.

Adjusted EPS was up 12% or $0.09. A $0.06 headwind from foreign exchange translation was more than offset by strong operational performance, accretion from the Zardoya transaction, continued progress on reducing the tax rate and the benefit of $400 million in share repurchases completed year-to-date.

Moving to slide 6. New Equipment orders in the second quarter were up 16.5% at constant currency. Orders in the Americas were up over 50% with growth in all verticals on top of nearly 50% growth in Q2 of 2021. Awards, which precede orders in North America, stayed strong and were up 5 points on a sequential basis.

EMEA orders were up 29% with growth in both Europe and the Middle East, and orders in Asia outside of China were up double-digits, driven by strong growth in South Korea and India, where bookings were more than double last year's volume. Orders in China were down low teens, outperforming the market that we estimate was down about 20%.

Strong orders growth contributed to New Equipment backlog increasing 6% and 10% at constant currency. Backlog in China was about flat, and backlog in Americas, EMEA and Asia outside of China was up approximately 15%.

Globally, pricing on New Equipment orders was up low single digits after five straight quarters of year-over-year decline. Pricing trends improved year-over-year in all regions, excluding China, where pricing was down low single digits versus the prior year.

New Equipment organic sales were down 5% in the quarter, as low single-digit growth in EMEA and high single-digit growth in Asia, excluding China, was more than offset by mid-single-digit decline in the Americas due to a tough compare from the prior year and slowdown in building construction, and a low teens decline in China from COVID-related lockdowns.

Adjusted operating profit was down $28 million at constant currency, largely from the impact of lower volume and related under absorption. Commodity inflation of $35 million that was in line with prior expectations was mostly mitigated by installation and material productivity and lower SG&A expense.

Service segment results on slide 7. Maintenance portfolio units were up nearly 3.5% from improvements in retention, recapture and conversion rates, with recaptured units more than offsetting cancellations in the quarter. In China, conversion rates continued to improve year-over-year and contributed to the fourth consecutive quarter of high-teens portfolio growth.

Modernization orders growth accelerated to 9% in the quarter, with growth in all regions, driving backlog growth of 4%. Service organic sales grew for the sixth consecutive quarter, up 5.2%, with growth in all lines of business.

Maintenance and repair grew 4.9%, as the benefit of strong repair volume and growth in contractual maintenance sales that outpaced our unit growth due to improved pricing, which was up about 3% on a like-for-like basis. Modernization sales continued the recovery that started in Q4 of 2021 and were up 6.4% in the quarter, with growth in every region.

Service profit at constant FX was up $39 million. Benefit from higher volume, favorable pricing and productivity was partially offset by annual wage increases. Margins were up 50 basis points, the 10th consecutive quarter of margin improvement.

Overall, the first half results reflect solid operational execution, with 1 point of New Equipment share gain, the best portfolio growth in a decade and close to $125 million of cost reduction between productivity and SG&A. These actions helped us manage through the continuing macroeconomic challenges and achieved low single-digit organic sales growth, $50 million of earnings growth at constant FX and 15.8% adjusted margins, a 30 basis point improvement over the first half of 2021.

Margins for the first half are up 140 basis points from pre-COVID levels of comparable period in 2019. First half free cash flow generation of $800 million, 50% of our guide for the year, enabled us to repay $500 million of debt, raise dividends 20% and complete $400 million in share repurchases.

With that, let me turn it over to Anurag to walk through the revised 2022 outlook.

Anurag Maheshwari

Chief Financial Officer, Asia Pacific, Otis Worldwide Corp.

Thanks, Rahul and Judy, for the kind introductions, and good morning, everyone. I'm excited to be here and look forward to continuing the great work Rahul has done in advancing our long-term strategy, driving operational execution and creating value for our shareholders. Thank you, Rahul.

Let me start on slide 8 with a recalibrated outlook that incorporates the evolving macroeconomic headwinds, combined with our continued focus on things we can control, accelerating service growth, driving productivity, optimizing the tax rate and reducing our share count.

Starting with sales, we are expecting organic sales to be up 2.5% to 3.5%, which is 0.5 point lower than the previous guidance, driven by a reduction in the New Equipment segment, partially offset by better expectations for Service. Though New Equipment sales are lower, margins remain unchanged, expected to be down 20 to 60 basis points versus the prior year, with the impact of lower volume, offset by improved productivity.

Service margins are now expected to be up approximately 60 basis points, a 10 basis point decrease from the prior outlook, reflecting the mix impact of modernization sales growing faster than the maintenance and repair business. The overall margin outlook remains unchanged versus the prior outlook and is expected to be up approximately 30 basis points to 15.7%.

Adjusted EPS is expected to be in the range of $3.17 to $3.21, up 7% to 9% versus the prior year. This high single-digit adjusted EPS growth is driven by strong operational execution, accretion from the Zardoya transaction, progress on reducing our tax rate and a lower share count that more than offset $0.42 of headwind from foreign exchange translation and commodity inflation.

Our free cash flow guidance for the year remains unchanged at $1.6 billion and we have increased the 2022 share repurchase target from $500 million to $700 million.

Taking a further look at the organic sales outlook on slide 9, the New Equipment business is projected to be down 0.5% to 1%. This is 1.5 points decrease from prior outlook at the midpoint, driven by revised expectation in the Americas and China.

While the backlog in Americas is up more than 10%, shipments are shifting from 2022 to next year from delayed building construction activity by our customers. As a result, we now expect Americas' organic New Equipment sales to be about flat versus up low single digits previously. We expect Asia to be down low single digits from down slightly previously, driven by China.

Despite our backlog being flattish versus prior year and up from the end of 2021, we now expect Otis China organic sales to be down mid-single digits, driven by lower market expectations now expected to be down approximately 10% at the low end of our prior guidance and the impact of lockdowns during Q2 that have moved projects to the right into 2023. This has been partially offset by improved outlook in Asia Pacific from the benefit of strong orders growth and momentum in India and South Korea.

Outlook on New Equipment organic sales in EMEA remains unchanged and is expected to be up low to mid-single digits in 2022.

Turning to service, we now expect organic sales to be up 5.5% to 6.5%, an improvement of 50 basis points from the prior outlook of 5% to 6%, driven by strong maintenance pricing, robust repair order growth in the second quarter and incrementally higher confidence to convert our modernization backlog that is up 4%.

Moving to slide 10, we expect adjusted EPS growth of 7% to 9%, a $0.24 increase at the midpoint. The $0.18 or $110 million headwind from commodities is more than offset by the $230 million to $260 million of operational improvement through higher service volume and pricing, productivity in both segments and other cost containment actions resulting in profit growth of $120 million to $150 million at constant currency. This is $5 million higher than our prior outlook at the midpoint.

Accretion from the Zardoya transaction, close to 2 points of tax rate reduction versus last year and the benefit from $1.4 billion of share repurchases since spin is more than offsetting the $0.24 or $145 million headwind from the unprecedented strengthening of the US dollar. We have now assumed the euro at $1.01 for the second half of the year or $1.05 for the full year.

Compared to the prior guidance, we are offsetting more than half of the incremental FX headwinds by driving the Service business, containing costs and reducing the tax rate an additional point now projected to be 26.6% for the year at the midpoint.

Overall, this outlook clearly reflects our ability to mitigate the macro challenges and deliver another year of solid organic top line growth, margin expansion, robust free cash, and importantly, strong New Equipment backlog and Service portfolio growth that positions us well for 2023 and beyond.

And with that, I will request Michelle to please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Jeff Sprague with Vertical Research Partners. Your line is open. Please go ahead.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, everyone.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Good morning, Jeff.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And congrats, Rahul and Anurag. Hope you're all doing well. First, just on China, obviously, a lot of headlines, the outlook, as you presented, down mid-single digit for the year and market down 10% actually sounds surprisingly okay. I just actually wonder your confidence level on that relative to the backlog and – backlog conversion and what's happening on the ground, if you could give us a little update there.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Sure, Jeff. Good morning. It's Judy. Listen, we are taking our market growth estimates down really due to the lockdown impact that we felt in April and May, and we just don't expect that the market will recover fully in 2022. So we've taken the market for 2022 to decline at about 10%, which is the low end of our previous range. And I will be sure to disclose that that does not assume or factor in any return to growth or any stimulus.

Listen, I'm feeling good about the health of our business in China. Our strategy and our initiatives are on track. It's helping us gain share, as you've seen. And we grew faster than the market, not just in Q1, but also in this most recent quarter.

Our New Equipment orders were down low teens, but the market was down 20% in the second quarter. So we're outperforming the market. And that's really what gives me the confidence that our strategy is working.

Residential, infrastructure and industrial were what were strong in the second quarter in China. And the higher tier cities, Tiers 1 through 4, but especially 1 and 2 have really continued to perform for us and the market in general. And that's really where we focused our strategy. We've doubled our agents and distributors, and that is continuing to yield. We're now at about 2,250 agents and distributors who are representing both our product and services. So net, our share is up in a down China market.

And we have really also focused on our Service strategy. As Rahul said, we had our fourth consecutive quarter of high teens portfolio growth. And that's where the growth is going to continue in China. So we're trying to find balance in China and then we have balance in geography and our mix. China is about 20% of our global revenue and really, as you've seen in the second quarter, the balance of our business, Asia Pacific, Europe and Americas just really picked up the pace. And we're feeling good the backlogs there across the globe and we've got the New Equipment orders that are going to continue to drive our future well into 2023.

So we're watching China like everyone else, but a really strong Q2 by Perry and the team post the COVID lockdowns. Our factories are manufacturing at peak rates. We've got capacity if there is a stimulus. And all of our Service indicators are really strong. When we can tell you across the globe, including China, that our recaptures for the first quarter have exceeded cancellation rates, second quarter having exceeded cancellation rates, we are managing every KPI and every metric and the team's delivering.

[indiscernible] (00:25:03)

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

And just to add to that – so just to add to that. I said in my prepared remarks and I think that's important for everyone to recognize that our backlog in China getting to second half is flattish year-over-year. So the orders were down kind of low teens, sales were down. So we enter into the second half of the year with flattish backlog. So as we take – as we're revising our guide for the year, we are projecting a sequential improvement in year-over-year growth. So we're down about – between first quarter and second quarter, we're down about 9% and the full year is down kind of mid-single digits. So that does – second half fiscal is down, but not down to the same extent as the first half. So that's clearly the case and the revenue is going to be up sequentially between first half and second half.

The conversion to your question is a little bit slower. Given the lockdowns, not all the projects that we have projected will be completed in 2022. So that pushes some demand into 2023. So, overall, we think our conversions are going to be down kind of high single digits for the year relative to a very, very strong 2021, but they're still kind of in line with where they were pre-COVID. So conversions are slower than last year, but in line with pre-COVID levels. So that's where we are.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Sounds great. And then just on the Americas, I mean, these orders really, the headline growth itself and then especially versus the comp is just extraordinarily strong. I wonder if you could give us a little bit more context on what's going on there, a couple of large lumpy things perhaps, but also address kind of the revenue slippage. Is that primarily kind of job site issues with your customers or you see folks kind of tapping the brakes on economic concerns? Just any additional color there on the Americas would be appreciated.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. Well, kudos to Jim and the Americas team. Orders are always lumpy, Jeff, you know that in all industrials, but especially in our business, which is longer cycle, but this was a volume-driven quarter for our Americas team. I can't peg it to significant major projects or huge major orders. So it was just strength. And the biggest strength we saw in the Americas was actually in residential and it reflects what we think is this population migration growth because we saw residential uptick in the South and the Western US and in the Tier 2 cities. So it's fitting the thesis that you're hearing from others, but we're seeing it come through in the orders book. So just really strong performance across the board, across all of our branches and everybody just delivering and converting those awards, which is what we measure as well into orders.

In terms of the 2022, some of that moving into 2023, we told you last quarter that we have some large projects that we didn't expect a lot of the revenue to happen until 2023. What we're seeing more is not a shift beyond really labor and job sites, and it's not our labor. We're fully staffed, but it's general construction labor from the general contractors and just a slowness because of the demand in the right places, in the right cities, especially in the South and the West.

So it's a little bit of delay versus our normal cycle time on some of this and seeing the revenue come through, but it's certainly – it's going to happen and should bode well for 2023.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Great. Thanks for the color.

Operator: Thank you. And our next question is from the line of Nigel Coe with Wolfe Research. Your line is open. Please go ahead.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Thanks. Good morning, everyone. And Rahul, thanks for all the support and help. You've been great. Thank you very much.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.
A

Thanks, Nigel.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Good luck [ph] to you. (00:29:14) So I just wanted to maybe just come back to the comments on China. Obviously, low teens decline was much better than what we expected and obviously, a lot better than some of your comps. So just curious, how did that compare to your plan? I can't remember if you gave a specific plan for what you expected in China than you did. But how did that play out versus your plan? And more importantly, how did that track through the quarter? I know you were behind the curve kind of mid-May. Just wondering how that tracked through June and what we've seen through July so far.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.
A

Yeah. So, Nigel, great to talk to you. And June was a tremendous month for our team. They just – the response was phenomenal. And actually, our shipments, we hit a record level of shipments out of our factories in China in June. So we were prepared. We – our factories never shut down just based on geo location of them in China. So I think we had some readiness, both our elevator and our escalator factories ready to go. And then we just needed to produce and we need to be able to ship and cross boundaries in China in certain regions. So the team had gotten prepared for that.

So June was a strong [ph] overdrive (00:30:30) and July performance continues. We don't guide to the quarter, but obviously, April and May gave us pause, but our team was prepared for it. And now, we're going to match our cost structure to what we're seeing happening in terms of the market itself. We've done that before. But we are not expecting the precipitous drop we saw in 2015. We don't believe there's an instantaneous type of drop there. And we're going to – again, we'll match our costs to what we're seeing happen in the market.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Great. Thanks, Judy. And then on the backlog, maybe just give us a little bit of a taste of through a slower macro, maybe a recession, what typically happens to your backlog? Do we see cancellations? Do we typically see push outs? What should we expect? And maybe if you can talk about New Equipment versus modernization that would be helpful.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. Nigel, what we are seeing right now, yeah, there are some projects that cancel, but it's always the case. But as you know, we get an advance we book an order. So it's not that we're booking an order or the like some other industrial companies, there has been some concern about our – given the overall supply chain challenges, our people placing multiple orders. That doesn't happen in our industry. I mean you're creating an elevator or an escalator for a certain building and you're not going to switch designs midway through the project. So – and we get an advance.

So the cancellation do happen. Projects do get canceled, but we are not seeing any change in the year-over-year trends. And those are typically like small. I mean it's not a big thing in our business that we have to deal with massive cancellations and we are not seeing any of that happen in any material way in terms of changes year-over-year. So the trends are kind of similar.

Projects do move and I think Judy alluded to that in both. I think we've seen that in China in terms of conversion, which to Jeff's question and then into Americas as well as projects are moving out. And I think it's the construction labor shortage in EMEA and in the US that is creating some challenges. Our factories are more or less – we are having supply chain issues. It's not that we are not having supply chain issues. But as best as we can track it and we're trying to track it very, very rigorously, we are not holding our projects. The challenges we are facing is that customers are behind in terms of their building construction.

So we are seeing that slowdown and that is flowing through our revenue, but you saw our backlog. I mean it's up 10% at constant currency. China is flattish and the other regions are combined up approximately 15%. So that bodes really, really well for 2023.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Absolutely. Thanks, Rahul. That's great.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thanks, Nigel.

Operator: Thank you. Our next question comes from the line of Nick Housden with RBC Capital Markets. Your line is open. Please go ahead.

Nick Housden
Analyst, RBC Capital Markets

Q

Yes. Hi, everyone. Thanks for taking my questions. The first one is on the tax rate, which was obviously quite a nice tailwind this quarter. It looks like it was down about 5 percentage points quarter-on-quarter. And I know, obviously, you've been saying that you're working to reduce this on a structural level, but I'm just trying to get my head around whether the reduction that we've seen this quarter is completely structural or whether we should expect more normal levels in the next few quarters. Thanks.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. Good morning, Nick. So great progress on reducing our tax rate. I mean, we lowered our full year tax rate guide to about 26.5%, 26.6% at the midpoint. So that's about 1 point reduction from the prior guide and about 2 points down where we ended in 2021. So that's obviously a really good progress.

And in terms of the tax rate within the quarter, there are always timing impact on things that we are working on and when they get booked and the tax rate does fluctuate from quarter-to-quarter, but the actions that the team is taking is definitely reducing our structural tax rate. And that is where we reduced our full year guide by about 1 point.

And now, we are well – we are within our medium-term guide that we had provided of 25% to 27% on Investor Day. So we are kind of now in that range, which is really good progress. And the progress has been a little bit more front-end loaded. We've made more progress this year than we were anticipating at the beginning of the year, but we are absolutely confident that we'll continue to work our way through to that lower end of the guidance. And – but given the progress that we have made, the rate of pace will not be the same. Obviously, we're not going to get 2 points of reduction every year.

So now, we are within the range. And I think you're going to see some improvement next year, but it's not going to be the same rate that we achieved this year.

Nick Housden
Analyst, RBC Capital Markets

Q

That's great. Thank you very much. My second question is on the margin profile of modernization and just how that compares to the Service business as a whole. My gut sense is that it's probably more like New Equipment in terms of the profitability there. So any color you could provide would be helpful.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

It's slightly lower than New Equipment in our business. And you typically are working on modernization. When you do modernization, the attractiveness of that project is typically that you get to renew your service contract for multiple years going forward, right? So that's the attractiveness. So it's highly completed, and you end up taking a modernization job at lower margins on New Equipment, but it's still a profitable line of business. So it's not that we are losing money on modernization jobs as a whole. We make money. We make decent margins on it. Our contribution margins are fairly healthy, but they are lower.

And the other part that – the other thing that modernization does help is it does help with that absorption of labor. So modernization growth, while the absolute margins that we attribute to that one line of business may be lower than others, but it definitely helps us with absorption overall. So it's good to see the growth. It's good to see the fact that we are raising our guide for the year. Keep in mind that we were challenged all last year on modernization. We had supply chain issues, we couldn't get – we were not able to get our supply chain ramped up, but we have kind of worked our way through that. And it's our third consecutive quarter of growth in modernization. And now, we are raising our guide from 6% to 8% for the year, which is absolutely fantastic, given the issues we had last year.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. And Nick, it's Judy. We're just also very pleased with the progress. We've been telling you for a while, it was delay, but there – this is discretionary – some of mod is discretionary, but every elevator is now about 3 years older than when we – just before we spun. So the market's growing in mod and it's got all the attractiveness of that stickiness we want for the follow-on Service business, as Rahul said.

Nick Housden
Analyst, RBC Capital Markets

Q

Thanks, guys. Very clear. And Rahul, best of luck in the future.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thank you.

Operator: Thank you. And our next question comes from the line of Steve Tusa with JPMorgan. Your line is open. Please go ahead.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Morning, Steve.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Rahul, congrats again, and thanks for all the help over the last couple of years.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Of course.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Can you guys just give a little – I think you said 3% price in Service. Is that right? Should we assume kind of a flattish in New Equipment?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. So Service pricing was up 3%. New Equipment was actually up low single digits in terms of pricing. So we got price in both segments, Steve.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. And we should assume that most of the commodity headwinds, what were the – out of that, I guess, you're guiding now kind of $108 million, $110 million in commodities year-over-year, inflation year-over-year. What was that number for the quarter?

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

The $35 million for the quarter, Steve, $70 million for the year, so $70 million for the first half. So you can see $70 million – kind of $70 million first half and about $40 million in the second half on a year-over-year basis.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

And the vast majority of that is coming in New Equipment, right?

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

All of it is coming in New Equipment.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Yeah, okay. And then one more question for you just on the second half. Anything within the two quarters that we should consider from a seasonality perspective? Should we assume a little more catch-up in China in the third quarter and then a bit of a fade on that in the fourth? Or how do we think about the trajectory of EPS just between the third and the fourth?

Anurag Maheshwari
Chief Financial Officer, Asia Pacific, Otis Worldwide Corp.

A

Yeah. Thanks, Steve. It's Anurag here, right. Yeah. So, if you look – I think you're asking for the cadence between Q3 and Q4.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Yeah, yeah.

Anurag Maheshwari
Chief Financial Officer, Asia Pacific, Otis Worldwide Corp.

A

If you look at 3Q, both sales and our profit will look very similar to 2Q 2022 at reported currency, and that is due to the large FX impact in the second half of the year, right?

Let me give you a little bit more details on the organic growth. If you look at our current guide, we expect the second half to grow organically about 4% with positive growth in both NE and Service. Last year, Q3 was extremely strong for us where we grew organically by about 8%, with the New Equipment growing mid-teens in the third quarter and low single digits in the fourth quarter. So though we will see sequential growth in New Equipment in Q3, it will be down VPY, [versus prior year] given the strong compare. As we get into fourth quarter, we do expect to see the return to organic growth as we face an easier compare versus last year, and also sequential growth.

On Service, for the first half, we are up 5.5%. Our guide is 6%. So that assumes about 6.5% growth for the second half. It should be pretty consistent between Q3 and Q4 in terms of the Service growth.

Now, moving down to the profit side, given what I just said about New Equipment, we will expect some year-on-year margin contraction in third quarter related to the under absorption. But in fourth quarter, you should see modest margin expansion year-on-year as the organic sales increase. For service, I would say we see a little bit more margin expansion in the fourth quarter than third quarter, simply based just on the timing of the repair work because we got just more repair revenue coming into the fourth quarter.

So, overall, we will see margin expansion in both the quarters, but probably more in Q4 than Q3. So if you take it down to the EPS line after normalizing for the tax rate, you'll see a couple of pennies growth in Q3 and the remaining coming out in Q4. Yeah. And for the rest of the year, we're pretty balanced in terms of EPS growth for the quarter.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot. I appreciate the color.

Operator: Thank you. And our next question comes from the line of Julian Mitchell with Barclays. Your line is open. Please go ahead.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Thanks a lot. And Rahul, wish you all the best in the new role. Thanks for the help. Maybe a first question around the EMEA business as I don't think that's been touched on too much, but maybe help us understand sort of how comfortable you feel on the Service pricing environment in Europe, as I know that was a big concern a decade ago when you had a construction downturn there.

And also on the New Equipment side, a mix picture from sort of other companies on what's going on in European construction. Any updates from you on how that's looking in terms of order intake and so forth?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah, Julian, we're really pleased with the Service pricing that we've been seeing now quarter-after-quarter in Europe itself. The majority of our Service portfolio is Western and Southern Europe, as you know, some in the Middle East, some in Africa. But by far, more – far more heavily skewed towards developed Europe, more than half of our service portfolio is there, which why the pricing is so important. And the team's done a great job, again, in Service pricing there. So – and they had growth in the portfolio for two quarters in a row there in EMEA. So all showing the right trajectory by Bernardo and team.

In terms of the market that itself, on the New Equipment side, the core European markets are really strong. And we had orders this quarter of 29.3% for New Equipment, a 12-month roll of 5.5%. So all the indicators are there. We're seeing a lot of those volume business and some nice major projects, whether it be around the Olympics coming to Paris or other places, we're seeing some nice major projects as well.

And so right now, the only headwinds we're seeing are in Eastern Europe, not surprising, based on the conflict there. So construction is fine. I think Rahul mentioned in one of his responses that labor is always a challenge in terms of unemployment in Europe with some of our installation subcontractors. So we're managing that very tightly and very closely. And we're moving our own labor around region-to-region, country-to-country, intra-Europe to be able to handle some of these larger projects.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's very helpful.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

And Julian, just to add to that, just a couple of things to add. I mean on – first, on the construction outlook and then I'll come back to pricing maybe in a second. But on construction outlook, what is good to see is that the construction outlook – the confidence level is up, up a couple of points, but still up. But more importantly, what we see in the building permits index, it is probably at the highest level over the last 12 months or so. So that is good that the permits is still kind of hanging in there, and in fact, sequentially up from the last – the latest output versus the prior report.

So that is good. Our proposals are up high single digits in EMEA. So our baseline activity is fairly strong. So it's just not that we got the orders, but the underlying trends from both an industry and our own activity are strong as well.

And then on New Equipment, we also got pricing in EMEA, our second consecutive quarter now of price improvement in EMEA, kind of up mid-single digits in the quarter. So sequentially better year-over-year than we were in the first quarter. So that is good that we're getting pricing as well on New Equipment orders.

And on Service, I think Judy said it, our pricing was up kind of in that low single-digit level on EMEA, but it's good that it's – again, it's the same thing that we saw in the first quarter as well. So Service pricing is good and that's where you're seeing the margin expansion come through on Service because we won't be able to grow our margins 50 basis points on Service if we were not seeing pricing in Europe, right? That would not have happened. So that's an important component of our margin expansion.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And then just my quick follow-up would be, I think you gave some color on the commodity impact this year, which is not really changing from prior, but as we think sort of a little bit further out, maybe, remind us, I suppose, on the hedging practices on commodities. And also, I suppose, how quickly you think that things like lower steel costs will roll into your COGS? And what degree of tailwind you might benefit from next year looking at sort of steel spot prices today? And again, the speed, just trying to understand the speed at which changes in those prices roll through into your cost of goods sold?

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. No, great questions, Julian. So we use several strategies to lock in our prices. We're locking with our suppliers either at spot or locking at the futures, which is our preferred option. We don't always get there, but we definitely lock in rates with our suppliers. And we also hedge. I think we've discussed it before. Our hedging is a little bit challenging, just given that the grades of steel that we buy, we don't always have a corresponding index. So we sometimes run the risk of mark-to-market accounting on our hedges. So we do use hedges. We just can't use it as widely as we would like, just given the nature of what we buy. But overall, we are about 80% locked for the year, almost 100% locked for Q3. Our Q4 spend is still slightly open. So we could – in our – and the prices have been coming down. I mean, you're clearly seeing, like if you go to China, prices were down 15% in second quarter. They're down about 30% year-over-year in Q3. So we're definitely seeing the prices come down. So could we have a small single-digit million tailwind for Q4? We could, but the market has been so fluid that we definitely don't want to bake that in.

Now, on a year-over-year basis, you're definitely seeing the benefit come through. I mean the prices have come down substantially from where they were. So if you look at Q3, Q4 right now, steel in the US is down 50% year-over-year. So, yeah, we should definitely get some favorability into 2023. And that will definitely come through as we buy – yeah, as we buy in Q1 and Q2, we will definitely see the favorable impact.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's great. Thank you.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thank you.

Operator: Thank you. And our next question comes from the line of Cai von Rumohr with Cowen. Your line is open. Please go ahead. Cai, your line could be on mute?

Michael Rednor
Senior Director, Investor Relations, Otis Worldwide Corp.

A

Michelle, let's move to the next question.

Operator: Our next question comes from the line of John Walsh with Credit Suisse. Your line is open.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, good morning. And I'll echo, everyone, congratulations, Rahul and Anurag.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thanks, John. Good morning.

Anurag Maheshwari
Chief Financial Officer, Asia Pacific, Otis Worldwide Corp.

A

Thanks.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC

Q

Maybe just circling back to China. You talked a little bit about internal geographies within China. Just your manufacturing wasn't as impacted by the others due to the Shanghai lockdown. But just curious how you think about the share gains you likely saw in the quarter as it relates to China. Do you think they're sustainable or if it kind of normalizes and maybe only keep a portion of what you gained? Just any thoughts around that.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

John, it's – our strategy is on track in China and our team is executing it operationally, and I would tell you with excellence. We have figured out and invested in sales coverage. We've invested in product innovation with our Gen3 offering. We have our factories. Some of them are already at Industry 4.0. And all of these investments and strategies are paying off.

We've had share gain now in China for multiple quarters and we believe it's absolutely sustainable. We think we're at the right price point with the most innovative products, with the right customer relationships through our agents and distributors, and it's all coming together and working. So even in – even if the segment declines, we should still be able to gain share.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then, you touched on capital allocation. Obviously, generating a lot of cash. Just curious as you look at the opportunities, should we think about kind of more service portfolio acquisition, equipment, software, kind of just any color you have there and what we should expect?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Our capital allocation strategy allocates about $50 million to $70 million a year for bolt-on M&A. Obviously, the Zardoya transaction was a great opportunity for us at the right time, at the appropriate and fair price. And we not only executed it well, but with the squeeze out, we're able to execute it as quickly as possible. And we're seeing the benefit of that with the $0.12 EPS gain this year and there'll be a little more next year. But really, our M&A strategy revolves around adding to our bolt-on Service business. And we've been doing this for years. It gives us – in places where we have density and opportunity, we make it accretive no later than [ph] year or two. (00:52:17) And we have a playbook for doing it. We've got a really good deal book across the globe to continue doing it. And that's what you're going to see from us.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you for taking the questions.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thanks, John.

Operator: And our next question comes from the line of Miguel Borrega with Exane BNP Paribas. Your line is open. Please go ahead.

Miguel Borrega
Analyst, Exane BNP Paribas

Q

Hi. Good morning, everyone. Thanks for taking my questions. The first one, just a follow-up on the order intake, specifically in the Americas, where you said mostly comes from residential [ph] and volumes. (00:52:59) Can you give us a flavor for timing of delivery? I suppose, lead times in residential are shorter. And then, can you talk about pricing of these new orders? Do they contribute positively to the backlog margin wise?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. Miguel, can I – you said residential and a second word, I didn't quite hear. Could you clarify?

Miguel Borrega
Analyst, Exane BNP Paribas

Q

Yeah, the residential orders in the US.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Okay, just residential. Okay. Yeah. So residential in the US is our traditional cycle time. It's condominium apartment buildings and the like. It's a typical lead time that we have for all of our projects. So we anticipate that that will continue to fill the pipeline, again, with a strong backlog for our Americas group to execute. Rahul, do you want to touch on?

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. It's about 12 months, Miguel. So that's typical, as Judy saying. It's like we typically see 12 months. And I think these new orders are going to be in the same range as well. So we should see the orders that we are getting now is probably translating into revenue in the second half of next year.

And overall, I think in Americas, we've got some really good pricing. In fact, pricing was good. New Equipment pricing was up. I think as said in my prepared remarks, up kind of low single digits. So if you – and we said China was down a couple of points, but that basically implies that all other regions, Americas, EMEA and Asia Pac outside of China was up mid-single digits. So we're getting good pricing. And we implemented these pricing actions in Q3 of last year, and we have seen the turnaround in Asia Pac and EMEA. So it was really good to see the turnaround in Americas. It's coming just as we would have expected. But the pricing overall is slightly better, I would say, in the grand scheme of things.

So the pricing is good. And in China, while I just want to comment on China pricing, while the pricing is down, keep in mind that the commodity prices, to respond to Julian's question, there we are seeing commodity prices down 15% in the second quarter, 30% in the third quarter. So even New Equipment pricing in China is down, we are seeing we are price cost neutral in the second quarter in China. So, overall, pricing on New Equipment is good and Americas kind of led the way for us on New Equipment pricing.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. And I think what you're seeing, Miguel, is the entire team is absolutely focused on cost reduction. SG&A is down 90 basis points as a percent of sales this quarter. And it just reinforces everything we can control, we will. And we've said this since we've spun, we're going to continue to drive SG&A as a percent of sales to be as low as absolutely possible while still investing in our business on the other side.

Miguel Borrega
Analyst, Exane BNP Paribas

Q

That's great. Thank you. And then just on labor inflation. Can you give us a flavor for what you've negotiated with your unions? When will that hit? And whether you expect this to be passed both in New Equipment and maintenance?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

So we have many agreements for labor negotiations. Obviously, [ph] Works Councils (00:56:18) in Europe, they come up at all different times. Our US labor negotiation has been concluded. It's a multi-employer agreement. And those rates will be effective on 1 January. So we have the – and it's a five-year agreement. So we have the ability and the knowledge, most importantly, to offset that with productivity.

So we obviously pass through and raise prices, but that has to cover on the Service side, wage inflation to the best of our ability as well as on the installation side for New Equipment, but we offset that with productivity, and then volume and price increases should drop through.

Miguel Borrega
Analyst, Exane BNP Paribas

Q

Great. And then just one quick last question on China. Can you just quantify the lost sales and EBIT from Q2? And whether this will be fully recovered already in Q3? Thank you.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. Miguel, what I would say is, quantification you can debate it, right? I mean, overall, the sales are down about 12% in the quarter. Q1 was down slightly. So you can average, maybe 6, 7 points, I would say, is the stuff that's moving around. But I think the more important part to focus on is our guide for the year, right? I think we've provided you guidance for the year.

We haven't lost sales. It's just shifting revenue from Q2 to Q3. I think we should be able to capture most of that, but it all depends on the timing of the projects. Clearly, we've spoken about the fact that we expect the market to be softer and we expect conversion rates in China to be slower than they were at the same point last quarter. So conversion rates are slower. So some demand is shifting to the right. But overall, I think the important part to focus on is the guide for the year.

Miguel Borrega
Analyst, Exane BNP Paribas

Q

Thank you so much, and good luck, Rahul.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thanks, Miguel.

Miguel Borrega
Analyst, Exane BNP Paribas

Q

Thank you.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thank you. Thank you, Miguel.

Operator: And our last question comes from the line of Joel Spungin with Berenberg. Your line is open. Please go ahead.

Joel Spungin
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. Hi. Good morning, everyone. Judy, I was just wondering if I could start by asking you a question on one of the comments you made earlier in answer to another question about why you don't think that what's going on in China is similar to the situation in 2014, 2015. I mean if I was to play devil's advocate for a second, I would say, well, the housing inventory levels are at alarmingly high rates as high as 2014. Sales of new floor space are on the [indiscernible] (00:58:55) Why are you more sanguine about the outlook for the Chinese market in the longer run?

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

Yeah. So, listen, I do believe there are structural changes eventually that will impact the China property market. But we don't believe, Joel, that it'll be as precipitous as it was then. There was – in our industry, certainly, there was tremendous supply overcapacity, which then drove significant pricing actions that made the entire industry far less profitable, and that we're not seeing. I think we have 90% of the New Equipment fulfillment today is by the top 10 providers. Almost all of those providers are public companies. They're all from the best we can see pricing rationally.

And we're – and I will tell you, Otis is in a far more competitive position. We have less factories than we did. We have a better offering than we did in terms of innovation. We have a far better sales network. So we are better aligned with this potential gradual slowing and we have the ability to control that, far better than that precipitous drop where there was just a buildup from 2000 until 2015 and then a sharp drop off.

So do I believe there's structural changes coming over time? Absolutely, but we're far better prepared for that and I expect our team will perform just like we have for the past multiple quarters and actually perform better than our peers.

Joel Spungin
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thanks a lot, Judy. That's helpful.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Yeah. And just to add to that – just to add, just a couple of data points to add to what Judy said. I mean, if you look at things that are different now, I believe, from if you go back to 2015, 2016, first, if you look at the inventory – residential inventory, it's at 3 to 4 months, right? And it's been hanging in there. In fact, it came down a little bit over the last six quarters, I think it's like 3.5 months of inventory, which is lower than 3.8 months from April. And I believe if you go back to 2016 or 2017, I don't have the numbers in front of me, but I think it was at this point maybe double the levels it is today, so it's 6, 6.5 months of inventory. So that is good. And even if you look at the investments, the real estate investment, that's about 5% – down about 5%. Floor space under construction is down about 3%. So, yeah, things are not great, but they're definitely not pointing to the same levels of decline that we saw back in 2016 and 2017.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

And the last differentiator I'll give you, Joel, is that we're seeing the state-owned enterprises have a far larger impact. And that bodes well for our relationships as well as our performance and our installed base and our customers. So, again, we've been watching – not just watching the trends, but our strategy has been to prepare for this, and we're ready.

Joel Spungin
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

That's great. Thank you. If I could just squeeze another one in very quickly. Just to clarify really with regards to your comments on the North American New Equipment market. You're saying that the delays you're seeing are purely, it sounds like, a function of issues on the construction side with factors such as labor. You're not seeing people delaying projects because of increased concern about the economic outlook or anything like that.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

A

That's correct. It's labor availability in the right market on the job site from all the trades, from the people pouring the hoistway with the cement to the general contractors.

Joel Spungin
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Brilliant. Thank you. And Rahul, good luck with your new job.

Rahul Ghai
Executive Vice President & Chief Financial Officer, Otis Worldwide Corp.

A

Thank you, Joel.

Operator: Thank you. This does conclude today's question-and-answer session. And I would like to turn the conference back over to Judy Marks for any further remarks.

Judith F. Marks
Chair, Chief Executive Officer & President, Otis Worldwide Corp.

Thank you, Michelle. This solid first half demonstrates the strength of our strategy and our ability to execute and adapt to mitigate the significant macroeconomic challenges. We will continue to focus on strong execution to deliver high single-digit adjusted EPS growth in 2022 with continued growth in 2023 and beyond.

Thank you for joining us today. Everyone, stay safe and well.

Operator: This concludes today's conference call. Thank you for participating.