Otis Worldwide Corp - NYSE: OTIS - Can OTIS Elevate our Portfolios?

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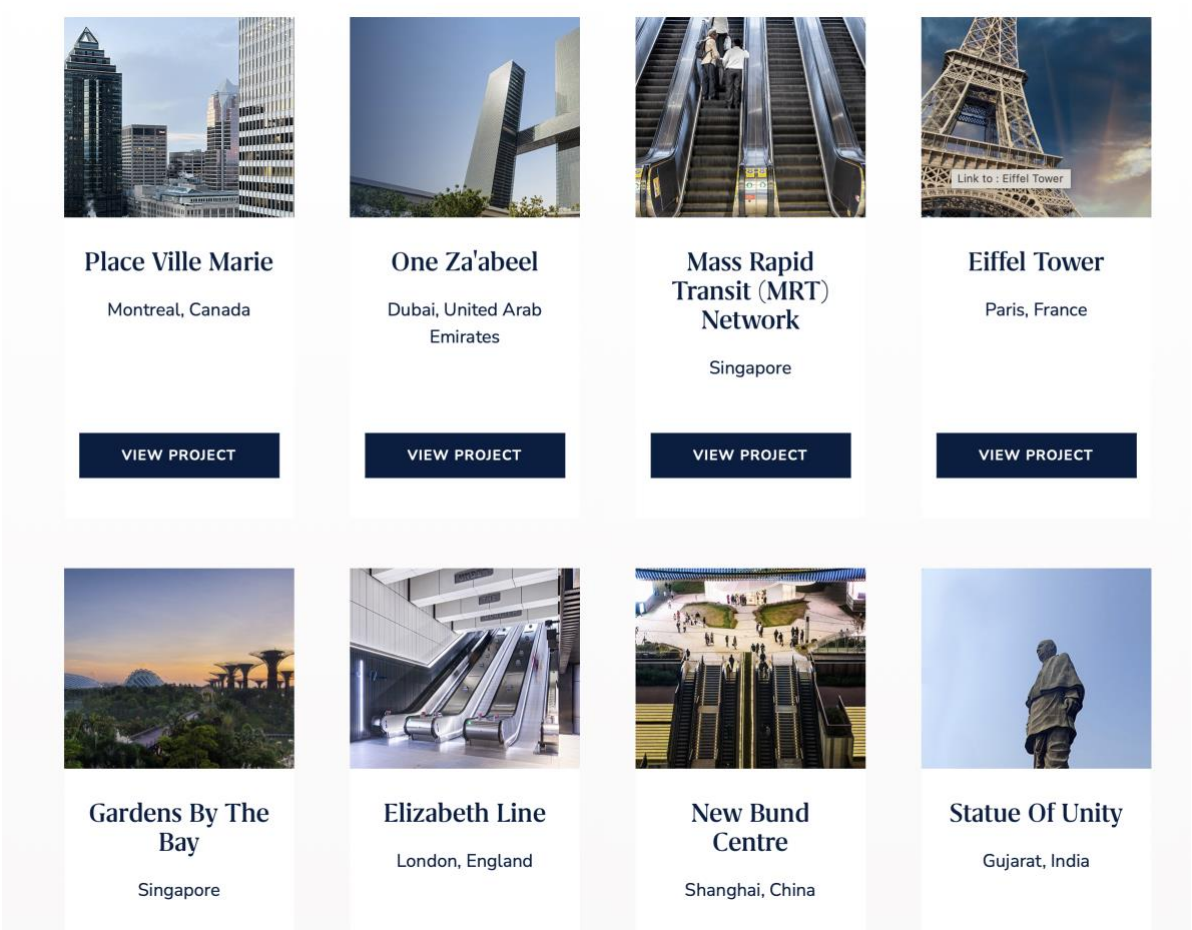
OTIS ELEVATORS:



OTIS Stock Overview & Research Context

OTIS went public in 2020 as a spin from United Technologies Corporations that merged with Raytheon. It a good run and we are now looking at a 30% drop from its peaks in late 2024 to early 2025. P/E ratio of 19, a dividend yield of 2.38%.

The market capitalization is at $28 billion which might make it just not yet big enough for it to go under Wall Street's radar and give us retail investors and opportunity. Let's see where to place OTIS into our framework.

As a value investor, I always look for businesses that are compounders but also offer a margin of safety and are trading at a fair price. Then I see where those fit into my portfolios that I manage on my Research Platform:

- Diversified Portfolio - 20+ Positions, Strategic Approach, Value Return at 10%+

- Model Portfolio - 5 Positions: Value, Margin of Safety Return 10%+

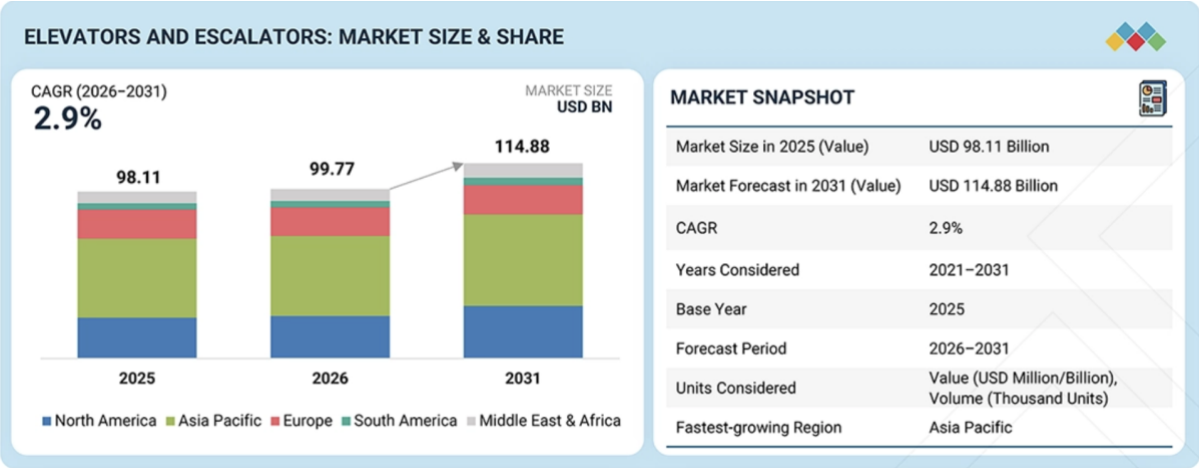
- Personal Portfolio - Highly Concentrated and Just Buying the Best That Year!

OTIS - Business Overview

OTIS is in the elevator and escalator business. When a company says they move 2.5 billion people daily, that is something.

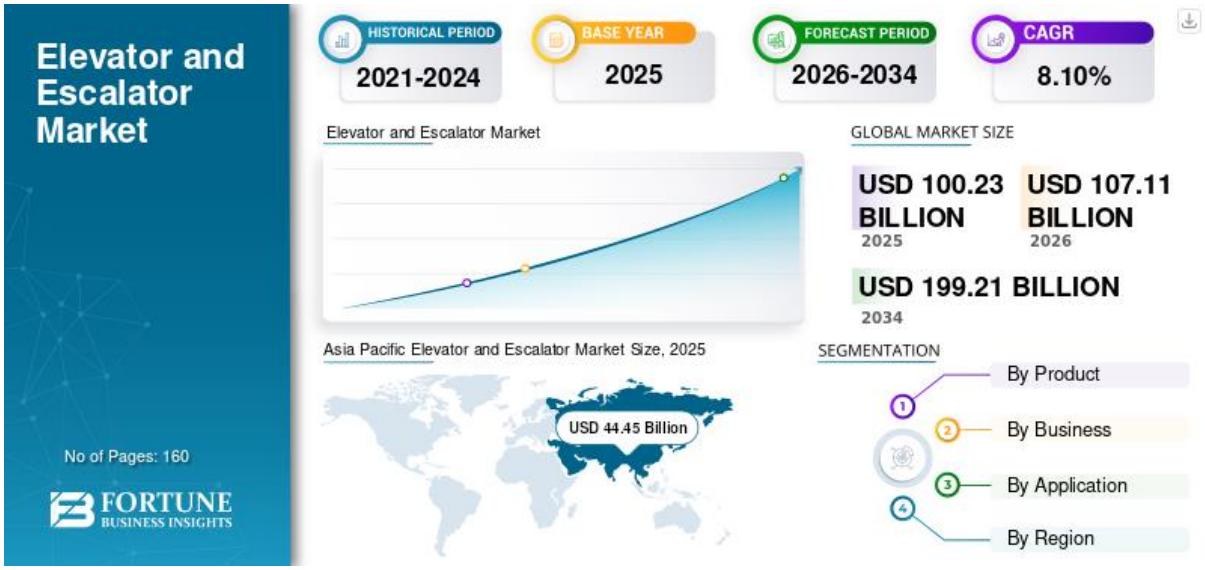
OTIS Overview - Source: Investor Relations

According to Markets & Markets, the elevator and escalator market is expected to keep growing as urbanization and infrastructure expand in the world.



Projected Market Growth - Source: Markets & Markets

Some see the market doubling over the next decade.

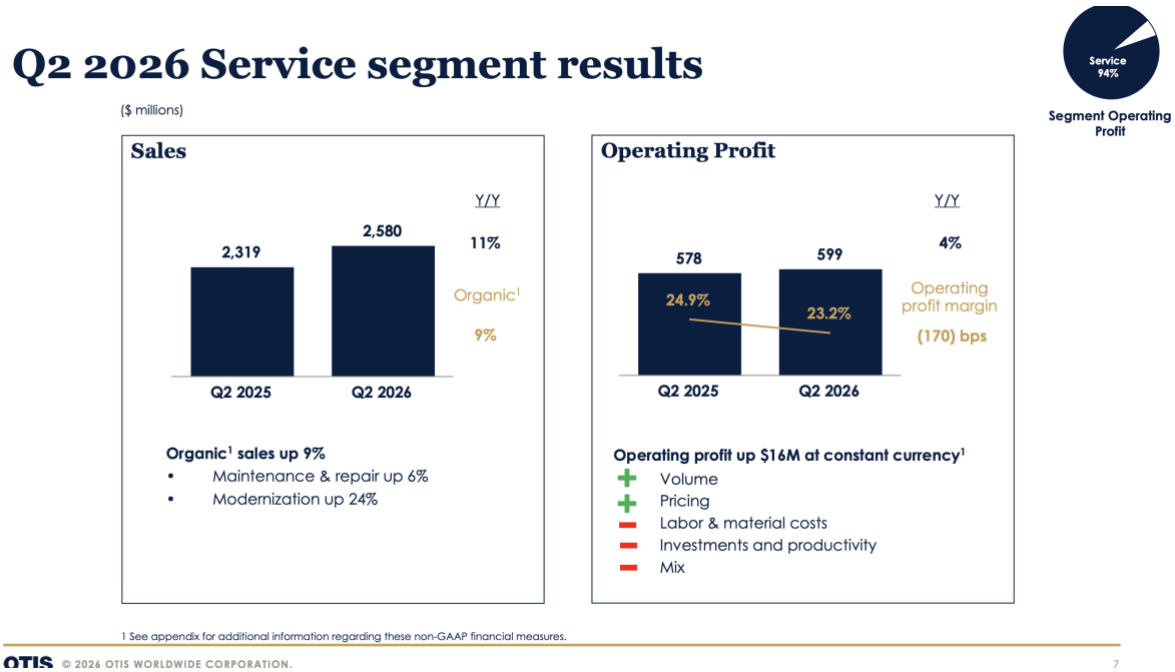


Source: Fortune Business Insights

I don't know whether the market will double in the next decade, but a tailwind always helps when it comes to investing.

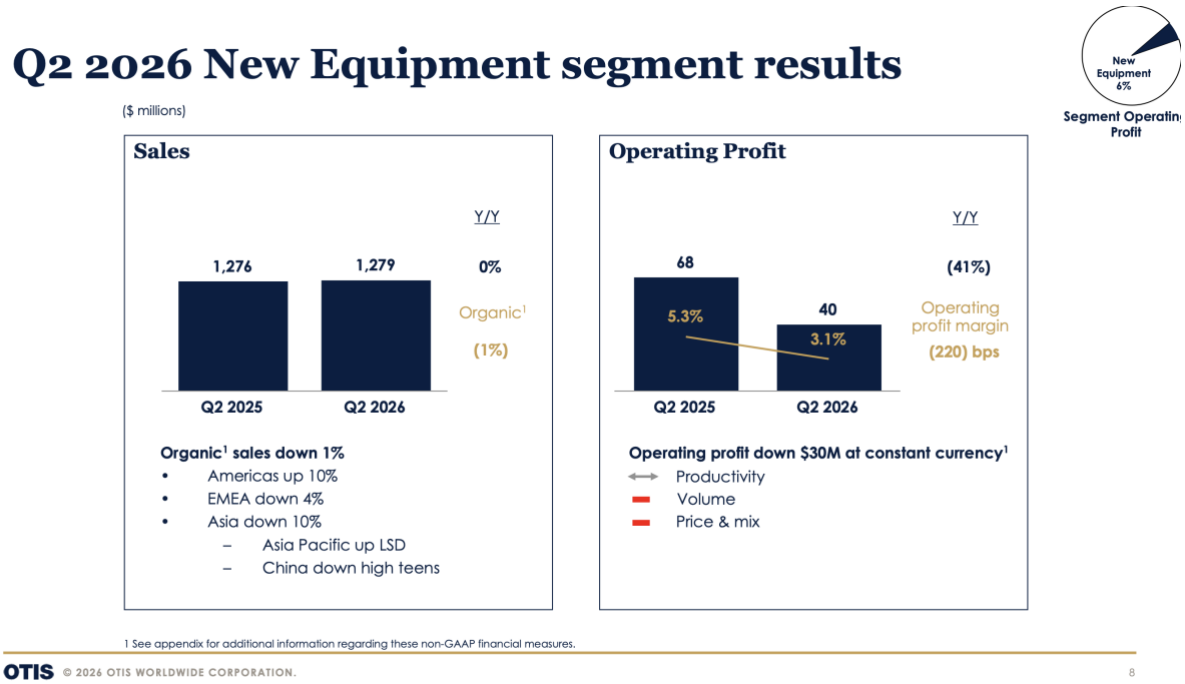
Of course, such projections aways exclude recessions or specific real estate market shocks. However, it is important to separate between the new equipment installation and maintenance/service business. With less construction, the new equipment might suffer, but the maintenance business should give some safety. I would say the nature of the business is cyclical, but not that much.

I've checked the last conference call and there are many moving parts. The key business segment is service, followed by new equipment. Service revenue growth is good but the margins are a bit down on higher input costs and pricing investments.

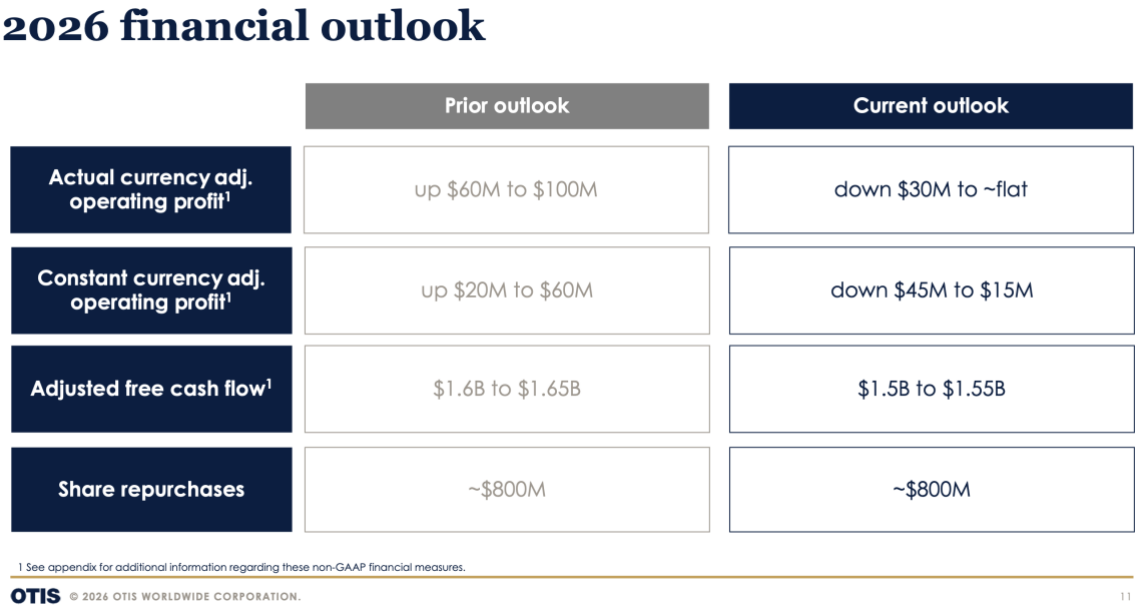


Q2 2026 Earnings - Source: Otis IR

New equipment sales are down with lower margins:



Also, customer retention is still not at expected levels, and these pressures put the guidance perhaps below expectations and therefore the stock's price reaction. Here is the slightly subdued outlook with flat to slightly down operating profit and FCF down.



2026 financial outlook

	Prior outlook	Current outlook
Actual currency adj. operating profit¹	up $60M to $100M	down $30M to ~flat
Constant currency adj. operating profit¹	up $20M to $60M	down $45M to $15M
Adjusted free cash flow¹	$1.6B to $1.65B	$1.5B to $1.55B
Share repurchases	~$800M	~$800M

1 See appendix for additional information regarding these non-GAAP financial measures.

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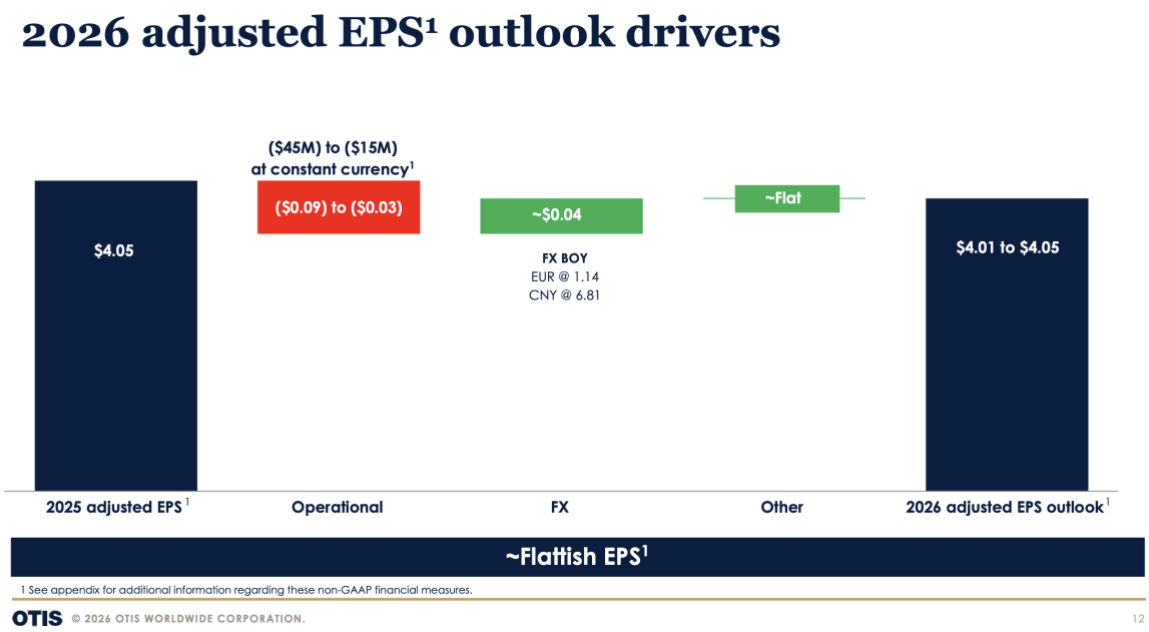
But, there is still $1.5 billion of FCF, the dividend has been increased and the plan is to keep doing buybacks at a rate of $800 million.

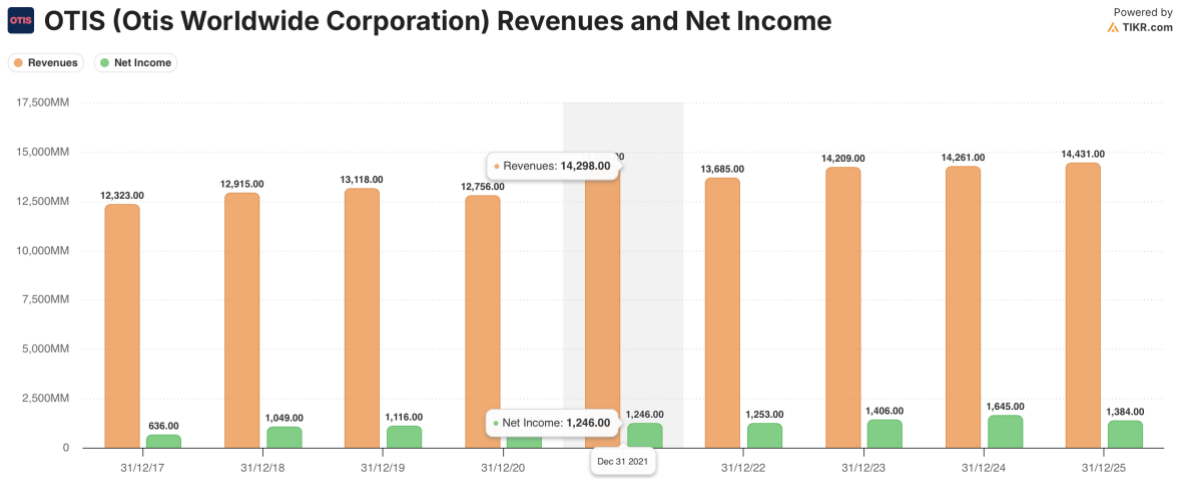
When one has a flat EPS, the valuation has to contract, that is the simple nature of Wall Street.



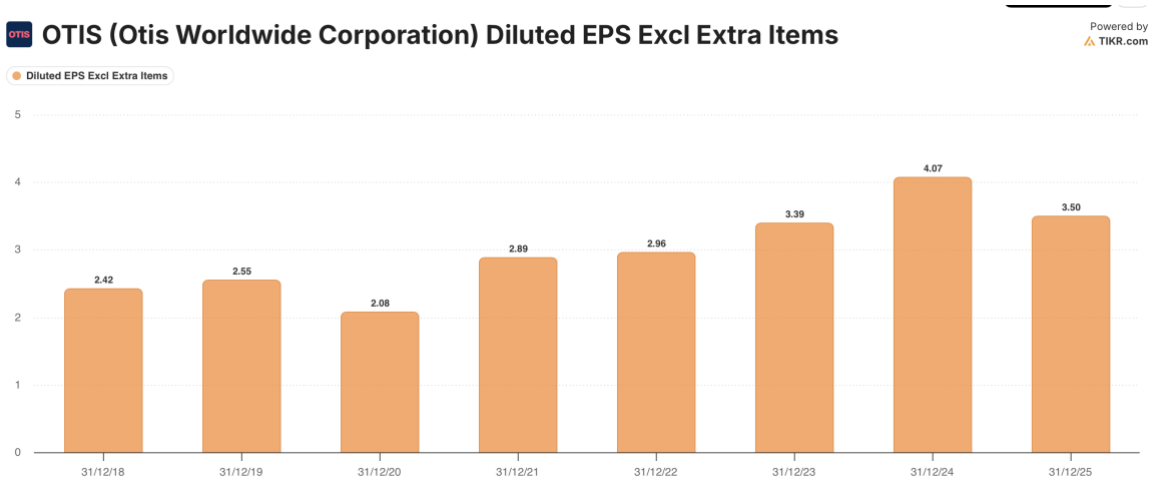
But there is still growth in revenues, projected up mid to high single digits, that should keep the business on the long-term growth tailwind we discussed at the start. Let's look at the long-term developments.

Financial Perspective

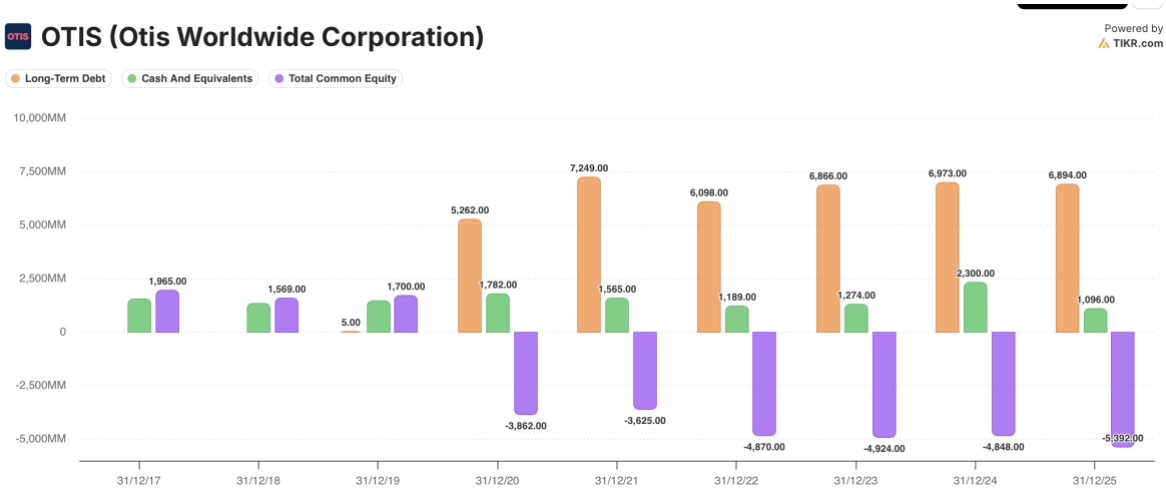
First, when I look at revenues and net income, the growth hasn't been great over the last 5 years, more flat than other.



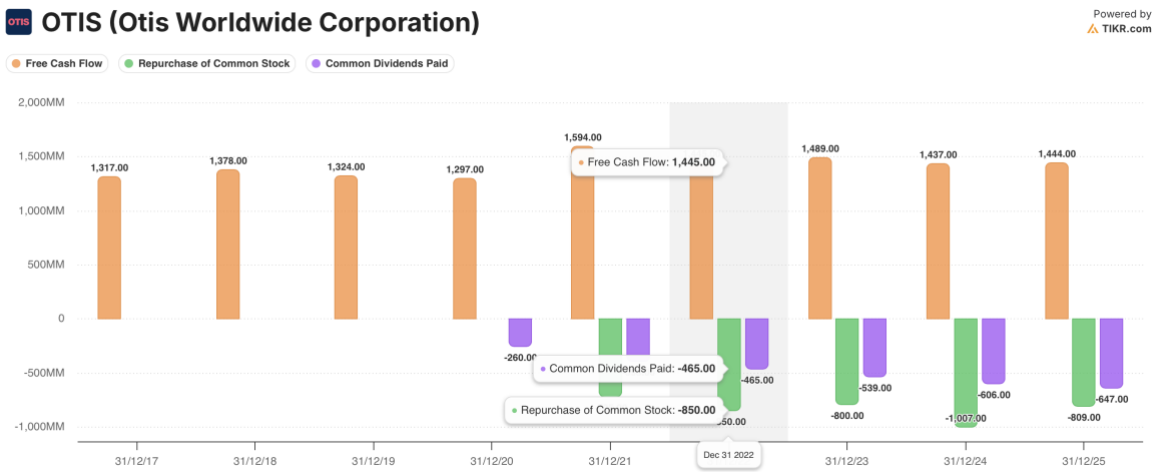
Earnings per share are up, mostly due to buybacks and the improvements above.



As it is a common situation when it comes to spin-offs, the parent company dumps as much debt as possible onto the spin. This resulted in a debt level of around $7 billion now. Equity is negative and declining due to the aggressive ongoing buybacks.



So, the key to the investment are the free cash flows, the stability and long-term outlook of those.



With $800 million in buybacks and $650 million in dividends, the total shareholder yield is around 5%. $800 million on $28 billion is a buyback yield of around 2.8%, which I'll add to the growth rate. Let's to the intrinsic value calculation.

OTIS Stock Intrinsic Value

We can use whatever as the input, but let's take the dividend, that should represent best the stable and growing cash flows the business is promising.

Inputs:

- $1.76 yearly dividend, 10% discount rate

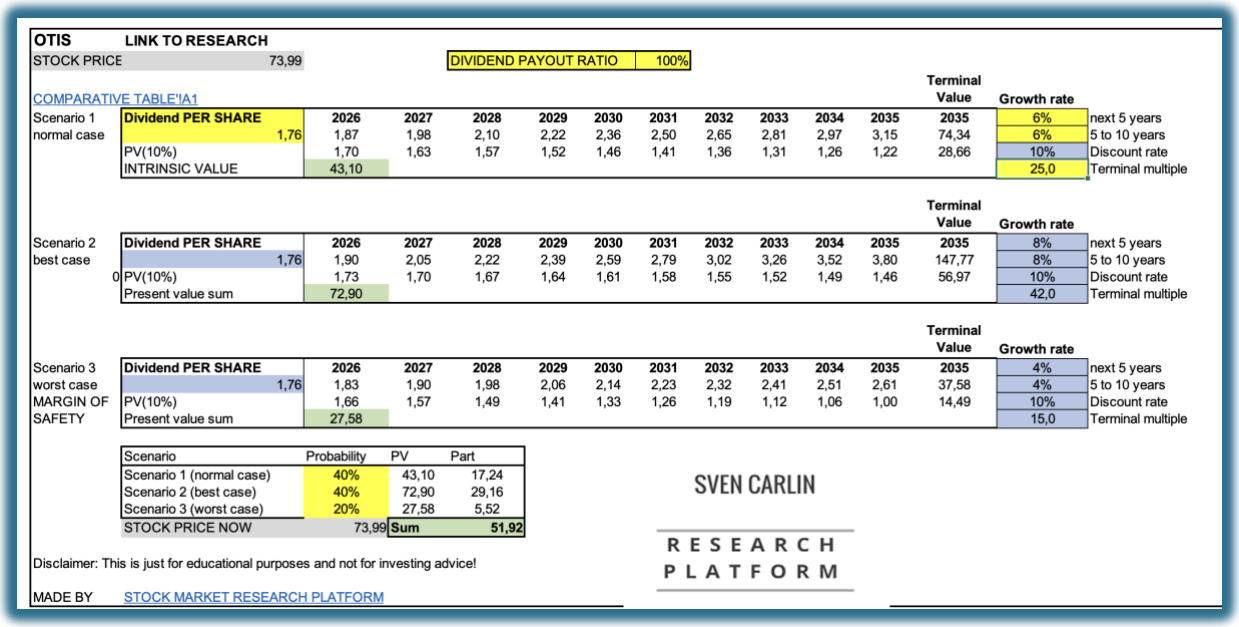
Normal Case Scenario:

6% growth per year, expected dividend yield of 4% for the company.

Best Case:

8% dividend growth per year - dividend yield required remains as is, at 2.3%.

Margin of safety case (something that can happen once in a decade - think recession, ugly real estate etc...) 3% growth, expected yield around 7%.



OTIS LINK TO RESEARCH

STOCK PRICE 73,99

DIVIDEND PAYOUT RATIO 100%

COMPARATIVE TABLE'!A1

												Terminal Value	Growth rate	
Scenario 1 normal case	**Dividend PER SHARE**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	6%	next 5 years
	1,76	1,87	1,98	2,10	2,22	2,36	2,50	2,65	2,81	2,97	3,15	74,34	6%	5 to 10 years
	PV(10%)	1,70	1,63	1,57	1,52	1,46	1,41	1,36	1,31	1,26	1,22	28,66	10%	Discount rate
	INTRINSIC VALUE	43,10											25,0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 2 best case	**Dividend PER SHARE**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	8%	next 5 years
	1,76	1,90	2,05	2,22	2,39	2,59	2,79	3,02	3,26	3,52	3,80	147,77	8%	5 to 10 years
0	PV(10%)	1,73	1,70	1,67	1,64	1,61	1,58	1,55	1,52	1,49	1,46	56,97	10%	Discount rate
	Present value sum	72,90											42,0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 3 worst case MARGIN OF SAFETY	**Dividend PER SHARE**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	4%	next 5 years
	1,76	1,83	1,90	1,98	2,06	2,14	2,23	2,32	2,41	2,51	2,61	37,58	4%	5 to 10 years
	PV(10%)	1,66	1,57	1,49	1,41	1,33	1,26	1,19	1,12	1,06	1,00	14,49	10%	Discount rate
	Present value sum	27,58											15,0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	40%	43,10	17,24
Scenario 2 (best case)	40%	72,90	29,16
Scenario 3 (worst case)	20%	27,58	5,52
STOCK PRICE NOW	73,99	**Sum**	**51,92**

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Source: Sven Carlin

When comparing to the stock price of $74, OTIS is now priced for the best case scenario where the dividend grows 8% per year indefinitely and the required yield remains at a relatively low 2.3%.

From a relative perspective, OTIS would give a good 10% return going forward, but value investing is not about relative perspective, but absolute investment returns. Going to a more conservative scenario with 6% growth, and a required dividend yield of 4%, growing at 3% from buybacks and 3% from the market's expected growth, we get to an intrinsic value of $43.

In the worst case scenario, that doesn't represent a valuation but just a possible point in time with maximum market pessimism, with 4% growth and a required yield of above 6%, the intrinsic/margin of safety value would be around $27.

From that perspective not yet a value investment, but an interesting situation.

Competitive Situation

OTIS plans to grow through modernization, service growth and share repurchases. Let's compare this to other players in the sector. Estimated Market Share

Otis Worldwide Corporation: 19% - 27%

KONE Corporation: 14% - 23%

TK Elevator (TKE): 13% - 15%

Schindler Group: 11% - 15%

Kone Corp

Open	51,36	Mkt cap	23,13B	Dividend	3,51%
High	51,68	P/E ratio	28,24	Qtrly Div Amt	0,45
Low	51,04	52-wk high	64,42	52-wk low	46,22

Kone has the same key points as OTIS; modernization, connectivity etc.

KONE

Highlights of Q2 2026: Strong order growth, solid execution

- Double-digit order growth, driven by a re-acceleration in Modernization
- Continued margin expansion and strong cash generation
- Good progress in Rise strategy execution
- Preparations for the combination with TKE progressing according to plan

>10% Growth in orders*	>15% Growth in Modernization orders*
40bps Improvement in adjusted EBIT-%	44% Connectivity

* At comparable exchange rates

JULY 22, 2026 HALF-YEAR FINANCIAL REPORT JANUARY-JUNE 2026 2

KONE Q2 2026 Earnings Presentation

Here is a good market overview, the Chinese real estate slump has impacted also OTIS in the last 5 years.

Market development in Q2 2026

	North America	Europe	APMEA	Greater China
New Building Solutions in units	-	+	+++	---
Service in units	+	+	++	+
Modernization in monetary value	+++	++	+++	+++

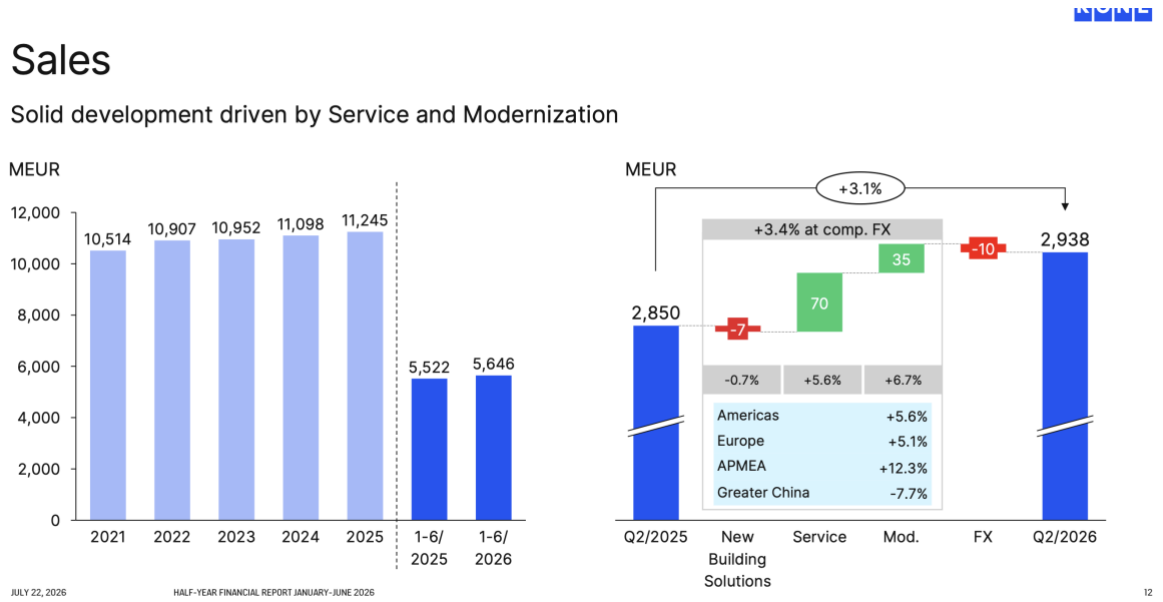
KONE's indicative orders received split in Q2 2026*

* Covers orders received from New Building Solutions, Modernization and Service, but not Service contracts

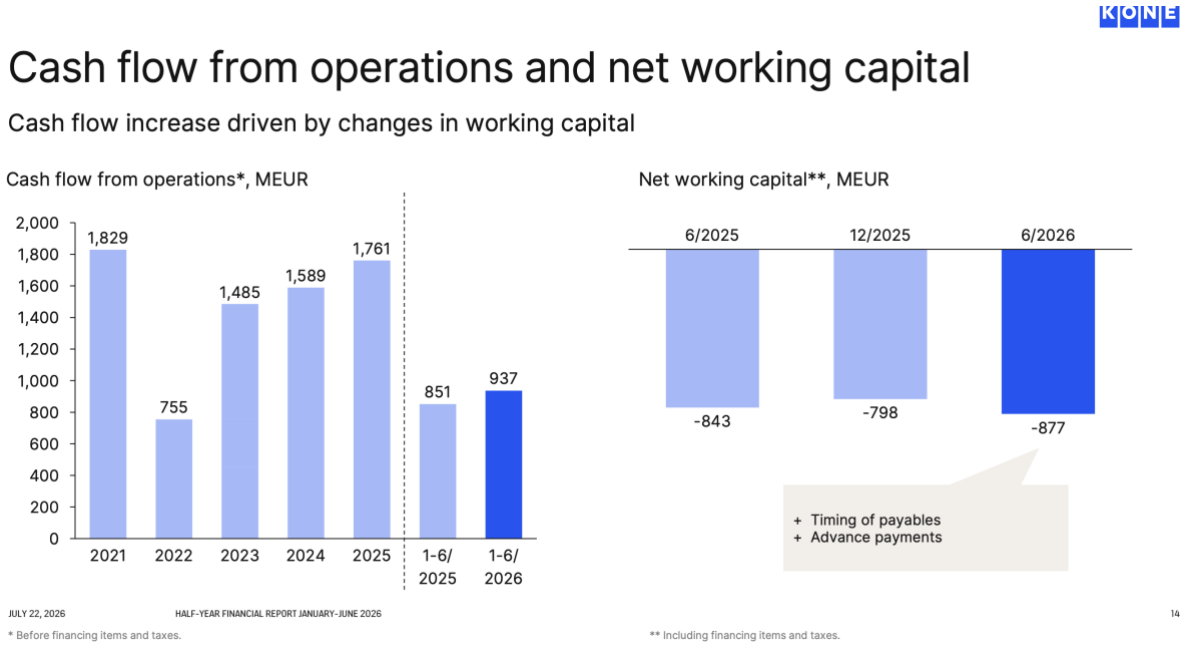
- - - Significant decline (>10%), - - Clear decline (5-10%), - Slight decline (<5%), Stable, + Slight growth (<5%), + + Clear growth (5-10%), + + + Significant growth (>10%). The development of the operating environment compared to the corresponding period last year. Based on KONE's estimate.

JULY 22, 2026 HALF-YEAR FINANCIAL REPORT JANUARY-JUNE 2026 9

Slow sector growth:



But high cash flows:



Compared to OTIS, we have positive equity, lower debt, and a higher FCF yield with 1.7 billion on 23 billion EUR market capitalization.

Balance sheet – assets employed

MEUR	Jun 30, 2026	Jun 30, 2025
Assets employed		
Goodwill	1,585.1	1,511.1
Other intangible assets	333.7	334.2
Tangible assets	957.9	865.0
Shares and other non-current financial assets	88.2	107.4
Net working capital	-877.0	-842.8
Assets employed total	**2,087.8**	**1,974.9**
Financed by		
Equity	2,333.3	2,275.3
Interest-bearing net debt	-245.5	-300.4
Equity and interest-bearing net debt total	**2,087.8**	**1,974.9**

Here the focus is more on the dividend, if KONE would go into debt, they could also do 8 billion of buybacks, but that could be considered crazy.

Here is the intrinsic value calculation:

KONE **LINK TO RESEARCH**

STOCK PRICE 51,34

DIVIDEND PAYOUT RATIO 100%

COMPARATIVE TABLE'!A1

												Terminal Value	Growth rate	
Scenario 1 normal case	**Dividend Per Share**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	5%	next 5 years
	1,80	1,89	1,98	2,08	2,19	2,30	2,41	2,53	2,66	2,79	2,93	55,85	5%	5 to 10 years
	PV(10%)	1,72	1,64	1,57	1,49	1,43	1,36	1,30	1,24	1,18	1,13	21,53	10%	Discount rate
	INTRINSIC VALUE	35,59											20,0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 2 best case	**Dividend Per Share**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	7%	next 5 years
	1,80	1,93	2,06	2,21	2,36	2,52	2,70	2,89	3,09	3,31	3,54	99,28	7%	5 to 10 years
0	PV(10%)	1,75	1,70	1,66	1,61	1,57	1,52	1,48	1,44	1,40	1,37	38,28	10%	Discount rate
	Present value sum	53,78											30,0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 3 worst case MARGIN OF SAFETY	**Dividend Per Share**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2035**	3%	next 5 years
	1,80	1,85	1,91	1,97	2,03	2,09	2,15	2,21	2,28	2,35	2,42	35,23	3%	5 to 10 years
	PV(10%)	1,69	1,58	1,48	1,38	1,30	1,21	1,14	1,06	1,00	0,93	13,58	10%	Discount rate
	Present value sum	26,34											15,0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	40%	35,59	14,24
Scenario 2 (best case)	40%	53,78	21,51
Scenario 3 (worst case)	20%	26,34	5,27
STOCK PRICE NOW	51,34	**Sum**	**41,02**

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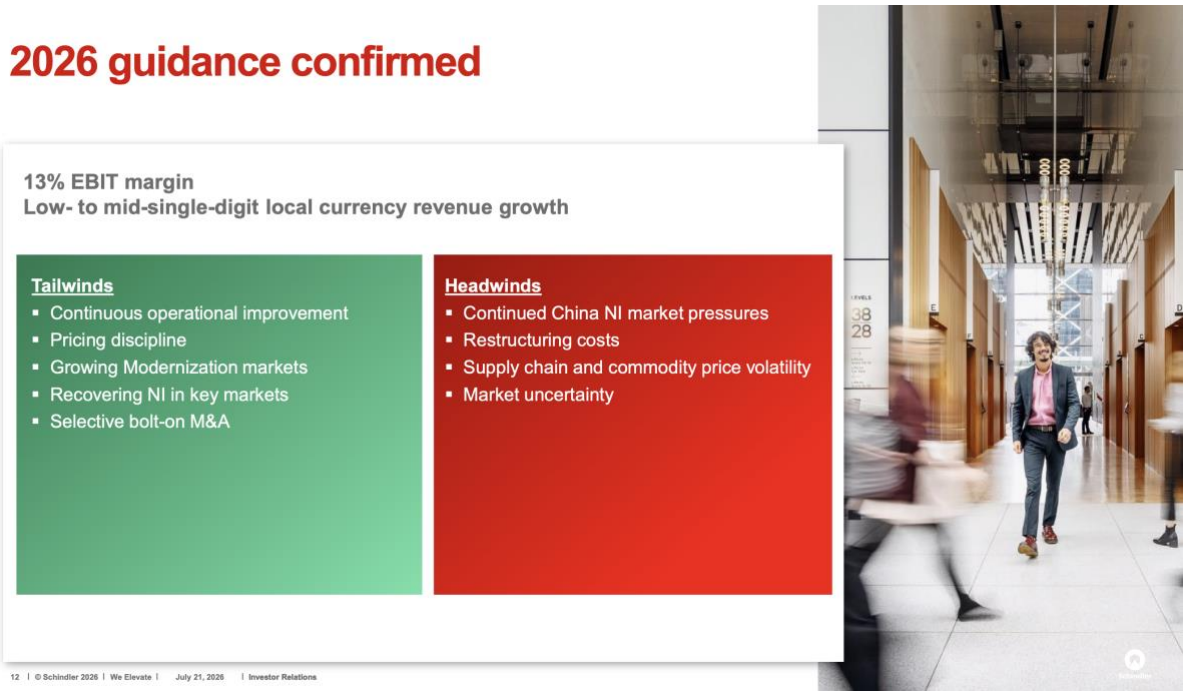
Source: Sven Carlin

Schindler

Similar situation there, good cash flows:



Intrinsic value overview:

Schindler	LINK TO RESEARCH														
STOCK PRICE	258,5						DIVIDEND PAYOUT RATIO	100%							
COMPARATIVE TABLE'!A1													Terminal Value	Growth rate	
Scenario 1 normal case	Dividend per share	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2035	6%	next 5 years
	6,80	7,21	7,64	8,10	8,58	9,10	9,65	10,22	10,84	11,49	12,18	287,21	6%	5 to 10 years
	PV(10%)	6,55	6,31	6,08	5,86	5,65	5,44	5,25	5,06	4,87	4,70	110,73	10%	Discount rate
	INTRINSIC VALUE	166,51											25,0	Terminal multiple
												Terminal Value	Growth rate	
Scenario 2 best case	Dividend per share	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2035	8%	next 5 years
	6,80	7,34	7,93	8,57	9,25	9,99	10,79	11,65	12,59	13,59	14,68	543,73	8%	5 to 10 years
0	PV(10%)	6,68	6,55	6,44	6,32	6,20	6,09	5,98	5,87	5,76	5,66	209,63	10%	Discount rate
	Present value sum	271,19											40,0	Terminal multiple
												Terminal Value	Growth rate	
Scenario 3 worst case MARGIN OF SAFETY	Dividend per share	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2035	4%	next 5 years
	6,80	7,07	7,35	7,65	7,96	8,27	8,60	8,95	9,31	9,68	10,07	145,18	4%	5 to 10 years
	PV(10%)	6,43	6,08	5,75	5,43	5,14	4,86	4,59	4,34	4,10	3,88	55,97	10%	Discount rate
	Present value sum	106,57											15,0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	60%	166,51	99,91
Scenario 2 (best case)	20%	271,19	54,24
Scenario 3 (worst case)	20%	106,57	21,31
STOCK PRICE NOW	258,5	Sum	175,46

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Comparing these, it seems the market is pricing them equally, KONE a bit cheaper due to less buybacks and maybe more exposure to China, but those are likely the cycles in the sector.

22	**OTIS**	**OTIS**	**73,99**	**51,92**	**0,70**	OTIS!A1	**9.Aug.26**	**Dividend Growth**
23	**KONE**	**KNEBV**	**51,34**	**41,02**	**0,80**	KONE!A1	**10.Aug.26**	**Dividend Growth**
24	**SCHINDLER**	**SCHP**	**258,5**	**175,46**	**0,68**	SCHP!A1	**11.Aug.26**	**Dividend Growth**

My Conclusion - Investing Perspective

The elevator and escalator business is a very interesting one with high cash flows on revenues, good returns to shareholders and a maintenance model that is very defensive.

Unfortunately, all the businesses are also price for the defensive cash flow security those offer. Also, despite the projected market growth, the businesses haven't been growing given the slump in China and new construction, that with possible higher global interest for longer, might not revert that fast.

Anyway, from a value investing perspective, OTIS is a highly leveraged spin, that just looks cheaper perhaps compared to others, but if things go wrong there, all the benefits of the levered buybacks can quickly evaporate. Thus risky.

KONE and Schindler look much more stable as European traded businesses, but those are also expensive from an absolute investment perspective. Kone is paying more in dividends while Schindler also started doing buybacks.

If all continues as planned, the companies manage the modernization, service and maintenance and the market grows, with the valuations remaining at these relatively high levels, one can expect a good return from investing.

However, if there are any shocks, the valuations might contract, and consequently the investments might look ugly for a moment. As a value investor, I want to look at this when it looks ugly. So, for now I'll put those on the followed list, then if and when we'll see how things go.

I like the cash flows, the growth tailwind, the oligopolistic businesses and service revenues, I don't like the valuation for the sector and the debt with OTIS.