

Otis Worldwide: Where Should the Next Increment of Capacity Go?

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Industry: Industrial Machinery & Supplies & Components

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Decision date and information cutoff: July 24, 2024, 8:00 a.m. ET

Decision scope: Commercial and operating capacity across modernization and maintenance-and-repair

Case convention: This is a hypothetical management decision exercise based only on information public by the stated cutoff. Otis did not disclose a specific proposed reallocation or budget.

The decision

At a midyear strategy review, Otis Worldwide's leadership team must decide where to place its next increment of commercial and operating capacity. Should it support modernization growth, protect and expand the maintenance portfolio, or stage capacity across both? The question is pressing because Otis reported strong modernization orders and backlog growth, while its large service business depends on reliable field execution. New Equipment sales and orders were weakening.

The decision is not simply whether to favor one line of business. Modernization and maintenance-and-repair (M&R) both sit within Service and may contribute to a customer relationship across an elevator's lifecycle. Yet the public results do not reveal the separate margins, incremental returns, staffing requirements or customer economics of these activities. Management must decide what evidence to seek and how to allocate capacity while that evidence is incomplete.

A lifecycle business under pressure

Otis sells elevators and escalators, modernizes installed equipment, and maintains equipment made by Otis and other manufacturers. Its 2023 Form 10-K described an integrated lifecycle strategy: convert new installations into service contracts, win units already serviced by competitors, and use its field network to maintain equipment over time. At year-end 2023, Otis reported a maintenance portfolio of approximately 2.3 million units, 35,000 Service mechanics and more than 1,400 branches and offices. [P1]

The service relationship can involve a different buyer from the original equipment purchase. Owners, facility managers and building operators may value reliability, response time, predictable cost and modernization planning. Otis competes with other elevator manufacturers and independent service providers. The company describes the industry as highly competitive; its estimates of the number of competitors are company-attributed industry characterizations, not market-share data. [P1]

Modernization projects upgrade existing elevators and escalators. They can address aging equipment and create customer value, but require project selling and delivery. Otis recognizes project revenue over time using costs incurred relative to estimated total contract costs; estimates can change as scope, costs or customer plans change. This accounting and risk disclosure does not establish that a particular Otis project was delayed or over budget. [P1]

Different signals from Q2

Otis's Q2 results were publicly available before the 8:00 a.m. decision cutoff. New Equipment sales were \$1.421 billion, down 11.4% reported and 9.4% organically. Orders declined 11% and backlog declined 3%, both at constant currency. Regionally, sales grew low single digits in the Americas and declined double digits in China, while orders declined in both China and the Americas. The release did not establish that weakness would persist. [P2]

Service sales were \$2.180 billion, up 3.0% reported and 5.1% organically. Within Service, M&R organic sales grew 4.9%, while modernization organic sales grew 5.8%. Separately, the number of units in Otis's maintenance portfolio grew 4.2%. The 4.2% figure is a unit-count measure: it does not measure repair activity or all M&R sales. The 4.9% figure is organic M&R sales growth and should not be substituted for portfolio unit growth. [P2]

Modernization orders increased 14% on the rounded headline measure, and modernization backlog rose 15% reported and 17% at constant currency. These measures indicate a growing pipeline, not completed revenue, project contribution, capacity needs or cash returns. Service segment operating profit was \$538 million, with a 24.7% margin, up 110 basis points. That margin combines M&R and modernization, so it cannot rank their economics. [P2]

Otis forecast 2024 organic Service sales growth of 6%-7% and mid-single-digit declines in organic New Equipment sales. Those are management's expectations, not realized outcomes. The Q2 release also included company-defined organic and constant-currency measures; their bases differ from reported sales and from unit counts. [P2]

Exhibit 1. Q2 2024 indicators available at the cutoff

Indicator	Q2 result	What it measures-and does not measure
New Equipment sales	\$1.421bn; -11.4% reported, -9.4% organic	Current sales trend; not proof of a permanent downturn
New Equipment orders / backlog	-11% / -3% at constant currency	Orders and pipeline; not future realized profit
Service sales	\$2.180bn; +3.0% reported, +5.1% organic	Combined Service performance
M&R organic sales	+4.9%	Organic sales growth; not maintenance-portfolio unit growth
Modernization organic sales	+5.8%	Organic sales growth; not category margin or return
Maintenance portfolio units	+4.2%	Unit-count growth; not repair activity or all M&R sales
Modernization orders / backlog	+14% headline / +15% reported, +17% constant currency	Pipeline signals; not conversion, contribution or capacity requirement
Service operating margin	24.7%; +110 bps	Aggregate M&R and modernization result; not a category comparison

Source: Otis Q2 2024 results release. The company defines the organic and constant-currency measures. Rounded headline order growth and detailed measures may use different comparison bases. [P2]

Capacity is a strategic choice

The leadership team faces two plausible priorities. Additional modernization sales, engineering or field-delivery capacity could help turn a growing backlog into completed projects. But backlog dollars, age, cancellation rates, conversion timing, available capacity and project-level contribution are not disclosed. More orders alone do not show that added capacity would earn an attractive return.

Investing in M&R commercial coverage and service execution could protect the installed base, support unit additions and preserve customer trust. Otis does not disclose renewal or churn rates, contract economics by cohort, service quality by activity, or the cost and return of retaining or winning units. Portfolio unit growth cannot establish repair workload or M&R profitability.

The two priorities may reinforce each other. A maintenance relationship might create modernization opportunities; a modernization project might strengthen service retention. Those are hypotheses to test. Public data do not quantify either effect. Capacity may also be specialized by region, trade or customer, so a single fungible pool should not be assumed. Weak New Equipment results add another consideration: redirecting attention might reduce exposure to a cyclical market, but could also affect installation execution and future service attachment.

Assignment

You are advising Otis's leadership team. Recommend how to allocate the next increment of commercial and operating capacity between modernization growth and protecting or expanding the M&R portfolio and service execution. You may recommend a staged allocation or conditional investment.

Explain:

- Which activity, customer segment or geography should receive capacity first, and why?
- What leading indicators and economic measures would you require before scaling the commitment?
- How would you protect service quality and project delivery while testing the opportunity?
- What evidence would change your recommendation?

Distinguish reported results, company-defined measures, forecasts and hypotheses. Do not treat the 4.2% portfolio unit growth as repair activity or M&R sales growth; distinguish it from the 4.9% organic M&R sales increase. Do not infer category returns from the aggregate Service margin or treat modernization backlog as realized profit. No single recommendation is specified by the available evidence.

Sources and information boundary

P1. Otis Worldwide, [2023 Form 10-K](#), filed February 2, 2024. Relevant sections: Business, pp. 1-5; selected risk factors, pp. 6-16; MD&A, pp. 32-37; revenue recognition and segment notes, pp. 58-61 and 90-91.

P2. Otis Worldwide, [Q2 2024 results 8-K and Exhibit 99 release](#), accepted by EDGAR July 24, 2024, 6:03:04 a.m. ET. Relevant sections: Q2 highlights; New Equipment; Service and category growth; cash flow and outlook; category growth/backlog table; non-GAAP definitions and reconciliations.

The information cutoff is **July 24, 2024, 8:00 a.m. ET**. The Q2 earnings call was scheduled for 8:30 a.m. ET and is excluded. The Q2 Form 10-Q was accepted on July 25, 2024, and is excluded. No later results or outcomes are part of this case.